DOCUMENT RESUME

ED 421 068 HE 031 412

TITLE Student Loan Debt: Problems & Prospects. Proceedings from a National Symposium (Washington, DC, December 10, 1997).

INSTITUTION Education Resources Inst., Boston, MA.; Institute for Higher Education Policy, Washington, DC.; Sallie Mae Education Inst., Washington, DC.

PUB DATE 1998-00-00

NOTE 154p.

AVAILABLE FROM Education Resources Institute, 330 Stuart St., Suite 500, Boston, MA 02116-5237; phone: 617-426-0681; fax: 617-451-9425.

PUB TYPE Collected Works - Proceedings (021)

EDRS PRICE MF01/PC07 Plus Postage.

DESCRIPTORS Credit (Finance); Financial Problems; Higher Education; Loan Default; *Loan Repayment; *Paying for College; Policy Formation; Student Financial Aid; *Student Loan Programs; *Student Responsibility

IDENTIFIERS *Debt (Financial)

ABSTRACT

These proceedings include five papers presented at a symposium on issues related to the increasing amounts of student borrowing and resulting student debt. Also included is a synopsis of a roundtable discussion addressing core questions framed by the symposium, as well as several public policy options for addressing student loan debt burden. The first two papers describe recent research on current borrowing patterns and debt levels, and how these have changed in recent years. The papers are: "Student Borrowing: Is There a Crisis?" (Jacqueline E. King) and "Reality Bites: How Much Do Students Owe?" (Patricia M. Scherschel). The third paper, "Early Labor Force Experiences and Debt Burden" (Susan P. Choy) describes a study comparing the early labor force experiences of borrowers and nonborrowers. In the fourth paper, "Life After Debt: Summary Results of the National Student Loan Survey" (Sandra Baum and Diane Saunders), findings of a national survey of students' repayment experiences and attitudes toward borrowing are reported. The final paper is "Singing the Student Loan Blues: Multiple Voices, Multiple Approaches?" by Patricia Somers and James Cofer. It details results of borrower interviews concerning student experiences with borrowing, lenders, and their colleges. The final chapter reports on the roundtable discussion which identified various policy options, including avoiding raising loan limits, especially for first-year students, and investigating ways to limit the use of credit cards to finance postsecondary education. Attached are the symposium agenda and a list of participants. (DB)

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STUDENT LOAN DEBT:

Problems & Prospects

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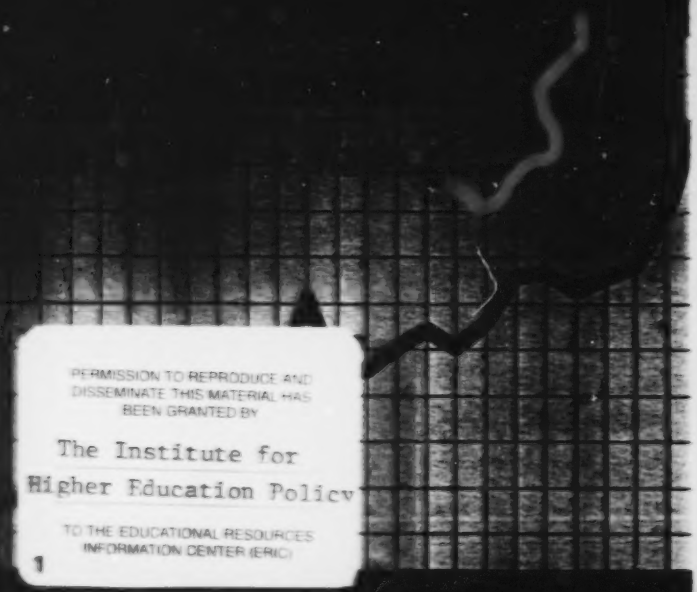

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STUDENT LOAN DEBT: PROBLEMS AND PROSPECTS

STUDENT LOAN DEBT: PROBLEMS AND PROSPECTS

Proceedings from a National Symposium
December 10, 1997 ■ Washington, DC

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Acknowledgments

The Sallie Mae Education Institute, The Institute for Higher Education Policy, and The Education Resources Institute wish to recognize the contributions of many individuals to both the preparation for and execution of the national symposium, and the publication of these proceedings. In particular, we would like to thank all of the presenters and participants; the staff of the Sallie Mae Education Institute, especially Cindy Buchanan, Ray Behm, and Linda del Castillo; the staff of The Institute for Higher Education Policy, including Colleen O'Brien, Alisa Federico, Kathy Volle, and Christina Redmond; the staff at TERI, notably Sarah Pendleton and Kristen Brady; and Free Hand Press. Responsibility for the content and viewpoints expressed in the papers presented in this publication rests solely with their authors.

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Preface

In 1992, several amendments made during the reauthorization of the Higher Education Act increased access to federal student loans. Need analysis was liberalized, making it easier to qualify for assistance, annual maximum loan limits were raised, and an unsubsidized Stafford Loan program was created that did not require recipients to demonstrate financial need. These changes contributed to dramatic annual increases in the numbers of student borrowers and amounts borrowed. Consequently, many policymakers and members of the higher education community are concerned that it will be hard for student borrowers to repay their loans or that debt will adversely affect their employment and career choices, their ability to afford additional education, and their opportunity to benefit fully from the education and training financed with loans. The soaring loan debt for some students has been described as giving borrowers "a mortgage without the house."

While student debt is currently a topic of much discussion, this is not the first time policymakers and higher education leaders have expressed concern about the negative consequences of student borrowing. When student borrowing from federal loan programs rose in the early 1980s, policymakers and higher education leaders asked questions very similar to those being asked today.* For example:

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* Two publications that illustrate these concerns include: Janet S. Hansen's *Student Loans: Are They Overburdening A Generation?* (Washington: The College Board, 1987) and Proceedings, College Scholarship Service Colloquium on Student Loan Counseling & Debt Management (New York: The College Entrance Examination Board, 1986).

- Are students borrowing so much that they will default or go into bankruptcy?
- Will rising loan debt restrict borrower ability to pursue careers with lower earnings potential but of considerable value to society, such as teaching, social work, nursing, or the ministry?
- Will student debt interfere with choices about marriage or child rearing?
- Will having to repay student loans keep borrowers from obtaining the graduate or professional training needed for our nation to prosper?
- Will student loan debt reduce the ability to purchase goods and services, thereby decreasing the personal benefits of education and hurting the national consumer economy?
- Will increasing reliance on loans to cover college costs cause individuals from lower-income families to decline to enroll?
- Will growing dependence on loans cause students to choose colleges on the basis of price rather than academic offerings?
- Will having to repay a huge student loan debt make it difficult for graduates to pay for their children's college education?

Fortunately, the earlier growth in borrowing leveled off and college graduates' incomes appear to have risen enough to help defray the larger amounts borrowed. Therefore, it is difficult to identify any widespread negative effects of increased student loan debt during the latter half of the 1980s.

But this time the concerns may be justified due to several factors. First, the amounts current students will have to repay represent an ever-rising and significant proportion of their potential earnings. Thus, it may take longer to repay loans and longer terms increase the potential for negative effects. Second, the current annual growth in borrowing has not yet leveled off, suggesting that the demand for loans has not yet peaked. Third, new evidence indicates that many borrowers have accumulated debt, particularly through credit cards, that could make repaying education loans more difficult than in the past. Fourth, since consumer debt in general is widespread and substantial, some students who might otherwise have relied on parents to help repay their loans may have to bear their repayment burdens alone.

During the earlier expansion in borrowing, data to answer the questions posed above were not generally available. Therefore, policy discussions were informed primarily by anecdotal evidence and conjecture based on limited or potentially biased empirical data. However, the current situation is much better. Several

databases are available to inform policy debates, and many researchers and policy analysts will be able to take advantage of this fortunate circumstance.

Some of the first research using these databases to assess the current state of student borrowing was presented at the annual NASSGAP/NCHELP Research Network Conference in May 1997. During this event, several participants presented finished research or research in progress that attempted to describe why loan debt is growing, what potential negative effects rising debt might cause (or has already caused), and how students feel about using loans for higher education. The idea for a national symposium grew out of these presentations and subsequent conversations among Jerry Davis of the Sallie Mae Education Institute, Jamie Merisotis of The Institute for Higher Education Policy, and Tom Parker of The Education Resources Institute (TERI). The combination of the use of recent data and the direct relationship of the research to policymakers' questions underscored the need to call attention to the findings. The three organizations agreed to develop a symposium that featured the research findings, concurring that as many federal policymakers and analysts as possible should be invited to the symposium, since Congress is in the process of reauthorizing the Higher Education Act and the research findings could help inform those discussions.

The researchers and analysts graciously agreed to come together to describe their work and participate in a panel discussion focused on these major questions: Is student loan debt a problem? For whom? What public policy options should be considered to address student debt? The symposium was held in Washington, DC on December 10, 1997.

The papers are presented here in the order they were delivered. The first session featured Jacqueline King of the American Council on Education and Patricia Scherschel of USA Group, who each described their separate research on current borrowing patterns and debt levels, and how these had changed in recent years. Next, Susan Choy of MPR Associates, Inc. described her study for the National Center for Education Statistics on the early labor force experiences of borrowers and non-borrowers. Sandra Baum of Skidmore College and Diane Saunders of Nellie Mae discussed the Nellie Mae national survey of students' repayment experiences and attitudes toward borrowing and repaying student loans. These sessions provided participants with considerable information about how many students have difficulty in

repaying loans and what these difficulties may mean for them and for national policy.

The final presentation by Patricia Somers of the University of Arkansas at Little Rock and James Cofer of the University of Arkansas System described the results of detailed borrower interviews. Their research was designed to illuminate student experiences with borrowing, lenders, and their colleges.

It is impossible to offer a concise summary of the findings and conclusions of such disparate research. Instead, the complete presentations are included. We hope that readers will spend time with each of the papers, which all deserve more than an "executive summary" reading. However, we do want to call attention here to some findings that should be especially relevant to policymakers.

It is important to emphasize that only one-half of all students who currently attend college leave school with any student loan debt at all. Therefore, assertions that rising loan debt burdens threaten all students are exaggerated. However, between 1992-93 and 1996-97, total annual federal student loan borrowing doubled, rising from $16.2 billion to over $32.8 billion. A substantial share of this growth occurred in the unsubsidized Stafford Loan program. This level of growth is unparalleled in the history of federal student loans.

Using National Postsecondary Student Aid Study (NPSAS) data, Jacqueline King discovered changes in undergraduate borrowing patterns between 1992-93 and 1995-96. She found that almost 59 percent of the increase in Stafford Loan volume was for loans to middle- and upper-income students, many of whom received unsubsidized Stafford Loans. However, about 22 percent of the increase was attributable to borrowing by low-income independent students and 19 percent was attributable to borrowing by low-income dependent students. King identified at least two groups she believes are likely to encounter loan repayment difficulties: *low-income independent students*, who are very likely to borrow, account for a large proportion of the increase in loan volume, and have personal circumstances that may make it difficult for them to repay their loans; and *professional school (law, medicine, dentistry) graduates*, whose average debt level was nearly $50,000.

Patricia Scherschel's analysis of changes in the borrowing patterns of students who left school with loans guaranteed by USA Group revealed that between 1995 and 1997, average cumulative debt levels grew by 14 percent for undergraduates from four-year colleges; by 42 percent for students leaving

proprietary schools; and by 80 percent for graduate/professional school borrowers. In 1995, only 14 percent of graduate and professional school borrowers left school owing $20,000 or more. By 1997, that proportion had doubled to over 29 percent. Scherschel's data supports King's observation that graduate/professional school and proprietary school students are more likely than other borrowers to experience loan debt repayment burdens.

Susan Choy's research addressed questions about the effects of loan debt on borrower activities after college. Choy found no evidence that borrowers made career choices differently than non-borrowers. Both groups reported that similar factors influenced the type of work they did. Borrowers were no less likely than non-borrowers to plan to continue their education beyond the bachelor's degree level, but the former were somewhat more likely to delay returning to classes by a year. The decision to marry did not appear to be related to debt burden, but graduates whose debt burden exceeded 15 percent of their monthly earnings were more likely than those with lower or no loan debt burdens to be living with parents or other relatives. Whether college graduates saved or not was unrelated to their student loan debt burdens, but whether debt burdens affected amounts saved was unknown. In general, Choy found relatively few negative effects of borrowing for the students who earned degrees in 1992–93, but she observed that the findings should be viewed with caution since debt levels have increased substantially since then.

Sandra Baum and Diane Saunders found more frequent negative effects among the borrowers they studied, namely those who began repaying loans from Nellie Mae after January 1993. For example, 16 percent said they had changed career plans because of their student loan debt (about 70 percent said they had not changed their plans). At least one out of five borrowers said their loan payments caused them to delay some activities, such as purchasing a home or buying a car. About 43 percent of the borrowers who did not go to graduate school said their undergraduate indebtedness was extremely or very important in preventing them from doing so. On the other hand, about 69 percent of the borrowers who did go to graduate school said that availability of student loans was extremely or very important in helping them afford to continue their education. About 26 percent of the Nellie Mae respondents said they would borrow much less, and 19 percent said they would borrow a little less "if they had to do it all over again." In view of the proportions of borrowers who said they would have borrowed less and those

whose plans were delayed by loan burdens, it is not surprising that 36 percent of borrowers said their loans caused them more hardship than anticipated. About 53 percent of the graduate school borrowers said that they were extremely or very burdened by their student loans.

The interview and focus group research by Patricia Somers and James Cofer found that beginning undergraduates generally have a low level of awareness of college costs and financial aid options available to them, but more than a few students choose to attend institutions on the basis of financial considerations. After they enroll, the students become "acutely aware of costs, and know much more about price than aid." They know the least about the potential effects of loan debt on their future, but virtually all believe their debts will affect their future financial decisions. On the positive side, the borrowers seem to know a great deal about the conditions under which they can defer loan payments. Somers and Cofer were surprised to discover that many students used credit cards to pay for college costs, sometimes to avoid a traditional student loan. Particularly troubling were the student reports of easy access to multiple credit cards and the ability to "max them out" during the first semester of college. Using credit cards to finance everyday expenses, or as a temporary source of money for tuition, fees, and textbooks, appears quite commonplace. Widespread use of credit cards to supplement or supplant education loans represents a relatively new phenomenon among college students. This topic provoked much discussion at the symposium and led to calls for more research as to why and how students are using credit cards.

The concluding session featured a roundtable discussion addressing the three core questions that framed the symposium. A synopsis of the discussion and the major topics raised is included in this publication. The following represents some of the highlights of the dialogue. There was considerable consensus that growing loan debts are not a problem for all borrowers. Many students are investing in themselves through higher education and will earn enough to repay their loan debts with little difficulty. However, the borrowing patterns of some students are of concern. These include low-income independent students, especially single-parents; low-income dependent students, many of whom are forced to accept larger loan debts as college costs

continue to grow faster than grant aid; and many professional school students in law, health professions, and business programs, whose average cumulative loan debts are soaring.

Several public policy options or alternatives for addressing student loan debt burdens were offered. They included the following suggestions:

- Avoid raising loan limits, especially for first-year students who often have the highest risk of dropping out or defaulting on their loans;
- Increase the information available to current and prospective students about aid, college prices, salary levels for college graduates, as well as other consumer information to provide a more accurate picture of the benefits and risks of borrowing;
- Investigate possible ways to limit the use of credit cards to finance postsecondary education; and
- Encourage employers to offer student loan repayment or reduction as a "cafeteria plan" option in employee benefit packages.

We hope that those who attended the symposium find that reviewing the following presentations sparks the level of interest and enthusiasm they evoked during the sessions and discussions. We hope those who are coming to the presentations for the first time find them thought-provoking and helpful. All members of the higher education community bear some degree of responsibility for helping students with current debt burdens to overcome them. We are also responsible for taking steps to assure that borrowing for college continues to be a wise investment for the majority of students and for remedying the potentially dangerous trends highlighted by the researchers. We hope the ideas and thoughts reported here help us meet those responsibilities.

Jerry S. Davis
Jamie P. Merisotis
April 1998

Student Borrowing: Is There a Crisis?

Jacqueline E. King / American Council on Education

If the popular press is to be believed, rising college costs have spurred an explosion of student borrowing, leaving students "drowning in debt." It *is* true that students are borrowing more than ever before, in large part because more credit is available to them through the federal student loan programs, commercial loans, and credit cards. Increased reliance on loans is not a crisis for all students, and need not become one, but there are pockets of students for whom borrowing has become a problem. By delineating the nature and extent of this problem for various groups of students, perhaps the student loan system (institutions, lenders, the federal government) can take a first step toward crafting policy and programmatic responses that address the actual difficulties students face.

Groups of students who are experiencing problems with debt can be identified, but efforts to do so will be hampered because data on certain types of credit are inadequate or nonexistent. Very good data exists on the federal student loan programs; it is possible to trace trends in borrowing, identify the causes of increased borrowing, and—as a result of some recently completed work—assess the relationship between student loan debt and major life decisions.

Student Loan Trend Data

In the federal student loan program's first full year of operation, 1967, students took out 287,000 federal student loans totaling $244 million. In 1996, students borrowed 8 million loans totaling $29 billion—almost 25 times more after adjusting for inflation (see Figure One). The causes of this change are easy to identify. The trend line shows two substantial "growth spurts," one following the Middle Income Student Assistance Act of 1978 (MISAA), which was revoked in 1981, and one after the 1992 reauthorization of the Higher Education Act. In 1978, Congress opened up the Stafford subsidized student loan program to all students, regardless of income, provoking a surge of student borrowing. This change proved too expensive and was revoked during the early budget-cutting days of the Reagan administration. Loan volume receded but did not drop to the low levels seen prior to MISAA.

In 1992, Congress took a multi-pronged approach to increasing the availability of loan capital to middle-income students. It broadened eligibility for subsidized Stafford loans, raised annual loan limits, and created a new unsubsidized Stafford loan program open to all students.[2] The year these changes went into effect, student borrowing jumped by 30 percent, from approximately $18 billion to $23 billion. Of course, changes in colleges costs and grant and funding also played a part in the trend toward more borrowing, but the primary reason for increased federal student loan borrowing is, quite simply, that more credit is available.

The Current Picture

Trend data, while informative, do not specify the percent of students who borrow or how much debt they accrue. The U.S. Department of Education's National Center for Education Statistics matches student loan data from its records to personal and academic information for a large, nationally-representative sample of postsecondary students. This survey, conducted before and after the 1992 reauthorization of the Higher Education Act, reveals that the surge in borrowing after 1992 has resulted in increased debt levels for most types of postsecondary degree recipients.

Table One outlines the results for students completing degree programs in academic years 1992-93 and 1995-96. It shows that in 1992-93, before the legislative change, 35 percent of bachelor's degree recipients at public institutions

had federal student loan debt and the average amount borrowed was $7,400. In 1995-96, 52 percent of these students had debt and the average amount borrowed was almost $12,000. In terms of monthly payments, this translates to an increase of approximately $60 per month, from $90 to $150. According to the U.S. Department of Education, the average starting salary of BA recipients in 1993 was $23,000.[7] This suggests that the average debt to income ratio for graduates of public institutions in 1995-96 is approximately 8 percent. This debt to income ratio should be manageable for most recent graduates, but further increases, without a corresponding change in starting salaries, could put average debt loads above the level that experts consider acceptable.

Still, most degree recipients do not borrow. Slightly less than half of bachelor's and master's degree earners graduate with no student loan debt at all. The majority of individuals who earn certificates and associate degrees at community colleges, and those at the other end of the educational spectrum who earn doctorates, graduate with no student loan debt. Among BA recipients, middle- and upper-income students—who are often portrayed as most likely to borrow—actually are least likely to borrow. Table Two shows that approximately 40 percent of BA recipients from families with income of $50,000 to $69,000, and one quarter of those with family income of $70,000 or more, graduate with student loan debt. Low-income undergraduates are much more likely to borrow and make up almost half of BA recipients who graduate with student loan debt.

Some stories in the popular press have suggested that recent graduates now defer starting a family or purchasing a car or home because of their student loan debt. On the contrary, a recent study by the New England Loan Marketing Corporation found that while borrowers say their debt is a burden, there is no relationship between debt and borrowers' actual behavior with regard to family formation or major purchases.[8] In each case (family formation, car ownership, and home ownership), age is among the most significant predictors. In other words, regardless of student loan debt, the older one becomes, the more likely it is that one will have bought a car or home and that one will have had children.

While the bulk of student borrowers should be able to manage their student loan debt without serious problems, there is cause for concern about certain groups of students. Those who earn professional degrees in fields such as law, medicine, and dentistry make up just 3 percent of degree recipients each year, but amass debts that average close to $50,000. Paying off such debt over the

standard 10-year repayment period requires monthly payments of approximately $600, a large sum even for individuals in high-paying fields and almost impossible for those who choose to enter lower paying areas such as public interest law.

Students who earn certificates and associate degrees from proprietary institutions also are a source of concern. In 1995-96, 70 percent of graduates of proprietary institutions received certificates. Almost two-thirds of these students took out federal student loans and the average amount they borrowed was $4,300. This amount seems small compared to the very high debt of professional school students, but can be very difficult for low-income students to manage.

More distressing is the debt amassed by the relatively small number of students who earn associate degrees at proprietary institutions. Almost all of these students borrow and the average debt they amass is $10,800. To repay this debt in 10 years, borrowers must make monthly payments of approximately $130. For those students who are able to realize significant financial returns on their education, this may not pose a problem, but for students who train for fields that do not pay well or who do not find a job in the field for which they trained, this level of debt could be impossible to repay and may result in default.

Borrowing through private loans and credit cards is more difficult to describe. The limited evidence available suggests that borrowing through private, bank-based student loan programs is small but growing. Many, but certainly not all, of the students who use these programs are enrolled in first-professional programs in law and medicine. Lenders consider these students a good risk and have targeted much of their marketing efforts toward them. The College Board estimates that students borrowed $1.2 billion through these programs in 1996-97, up from just under $1 billion in the previous year. Compared to the over $30 billion loaned through the federal programs in 1996-97, private loan volume is still quite small and does not appear to have an appreciable affect on overall student indebtedness. However, those students who use these loans often do so to increase their annual borrowing above the limits for the federal programs, thereby boosting their total debt to potentially unmanageable levels.

Credit card debt is a matter of greater concern. No reliable estimates exist of student use of credit cards, but anecdotal evidence suggests that credit card debt among students is skyrocketing. Given the very high interest rates on most credit cards, this is a disturbing trend that could have more serious implications for graduates' financial well-being than student loan debt. It is difficult, if not

impossible, to pin down all the causes of this change in student behavior, but one obvious reason is increased marketing to students by credit card companies that routinely set up booths on college campuses and pay to have their credit application included with purchases in campus bookstores. As a first step toward understanding the scope of this problem, reliable data is needed on the average balances that traditional and nontraditional students routinely carry on credit cards and the number of cards they use regularly. It also would be helpful to have some understanding of the types of goods and services students purchase with credit cards and the extent to which they become delinquent or in default on their payments.

Another way to look at student borrowing is to identify the groups of students by income and dependency status responsible for the overall growth in loan volume since 1992-93. It makes most sense to conduct this analysis for undergraduates only, since all graduate students are, by definition, financially independent of their parents and since we already know that the relatively small number of professional students borrow far more than their peers in other degree programs. In 1992-93, undergraduates borrowed $8 billion through the Stafford subsidized and unsubsidized loan programs; three years later, annual borrowing in those programs had jumped to almost $18 billion. What type of students were primarily responsible for this dramatic change and why are they borrowing more?

Figure Two shows that, among undergraduates, the group responsible for the largest share of increased loan volume is middle-income dependent students, those who gained eligibility for federal loans in 1992.[3] These students account for 29 percent of the increase in loan volume between 1992-93 and 1995-96 and 34 percent of the increase in the number of borrowers over the same period (see Figure Three). As discussed above, this group should have little trouble repaying their loans.

These students have been characterized as "convenience borrowers." The term convenience is not meant pejoratively. Student borrowing has not doubled so that students can take lavish spring break trips to Mexico or the Caribbean. Convenience borrowing simply means that students are using these loans to substitute for or augment other sources of funding. Dependent, middle-income students who borrowed unsubsidized loans after the 1992 reauthorization were able—somehow—to afford to attend college before this form of credit became

available. It may have been difficult for them to scrape together the necessary funds, but they were able to do so. Availability of unsubsidized loans was not accompanied by an increase in the enrollment of middle- and upper-income students; these students were no less likely to attend college before 1992. The only change is that now they can substitute unsubsidized student loans for some other form of financing.

The 1992 reauthorization also prompted increased borrowing by middle-income students because of the "gold fish rule," that is, all else being equal, the more one feeds a gold fish, the more it will eat. When eligibility was broadened and loan limits raised, students were offered larger loan amounts as part of their financial aid packages. Many simply checked "accept" next to those amounts on their financial aid award letters, not considering either whether they *really* needed the money or how this increased debt would affect them after graduation. This explanation of increased borrowing is confirmed by research. In Pennsylvania, the state student loan guaranty agency compared individual students who borrowed before and after the reauthorization. Students whose financial circumstances did not change at all borrowed more money when their eligibility was increased.[7] To some extent, this is another form of convenience borrowing, although many middle-income borrowers might argue vociferously that they "need" the extra funds. In many cases, this may be true. Still, whether or not students and parents ever recognize it, student loan funds frequently either augmented or replaced other sources of funding.

The group responsible for the second largest increase in undergraduate loan volume is low-income, financially independent students.[8] Their borrowing accounts for 22 percent of the growth in annual volume and 18 percent of the increased number of borrowers over the 1992-93 to 1995-96 period. As a group, these borrowers will have much greater difficulty managing their student loan debt.

In 1992, Congress changed the definition of financial independence. Previously, students under the age of 24 could gain independent status if they were not claimed as dependents on their parent's income tax. The 1992 reauthorization tightened the definition to include only students ages 24 or older and those under 24 who are married and/or have children. Due to this change, and new loan eligibility for dependent students, independent students declined as a share of total Stafford borrowers from 48 percent in 1992-93 to 40 percent in 1995-96. Given that the number of independent borrowers has

increased at a slower pace than dependent borrowers, it is doubly significant that this group of very low-income independent students represents almost one quarter of new Stafford loan volume.

Who are these students? The available data suggest that independent borrowers with less than $10,000 income are more likely than other borrowers to be African American or Hispanic, to be single parents, to have received a GED instead of a high school diploma, and to be the first in their families to attend college. In terms of educational experiences, these students also are much more likely to attend proprietary institutions, and much less likely to attend private, non-profit colleges and universities. Whereas 12 percent of undergraduate Stafford borrowers attended proprietary institutions in 1995-96, 22 percent of low-income independent borrowers attended these institutions. They also are more likely to attend college part-time or for part of the year and to be working toward an associate's degree or certificate rather than a bachelor's degree.

Previous studies have shown that many of these personal characteristics are associated with failure to complete a degree program and student loan default.[9] These low-income, independent students are borrowing over twice as much as they did in 1992-93—almost $4 billion in 1995-96. They have garnered little attention from the media but are in far greater danger of leaving postsecondary education without a degree or adequate means to repay their loans than are middle-income, dependent borrowers.

Conclusion

So what can be done with this information? How can it be used to craft public and institutional policies that will make borrowing less necessary for low-income students, help students to borrow reasonable amounts based on their particular circumstances, and encourage students to make wise decisions about the use of commercial credit? The evidence makes a compelling case that there is no generalized crisis and that most students can manage their debt. However, there are pockets of borrowers that should be of concern to educators and policymakers. To sum up:

- dependent students from middle-income families are most responsible for the increase of borrowing among undergraduates and may borrow more than they absolutely need;

- while the average debt to income ratio of new BA recipients appears to be within the acceptable range, any appreciable growth in indebtedness, without a corresponding increase in starting salaries, may push the ratio outside that range;
- low-income, independent students—many of whom attend proprietary institutions for certificates or associate degrees—are very likely to borrow, account for a large proportion of the increase in annual loan volume, and tend to have personal circumstances that may make it very difficult for them to repay their debt;
- professional school students borrow such large amounts that, despite the very good salaries they will earn after graduation, they may encounter serious difficulties during repayment; and
- anecdotal evidence indicates that credit card use by students is expanding rapidly.

The higher education community has taken steps to address several of these issues. First, with regard to low-income, independent students, it has fought to restore Pell Grant eligibility for approximately 150,000 independent undergraduates who were rendered ineligible by the 1992 reauthorization. As part of the FY 1998 federal budget, changes were made to the need analysis formula that will help achieve this goal. Hopefully, this will reduce the reliance on loans for at least some of these students. Second, the community has included in its recommendations for the 1998 reauthorization of the Higher Education Act a proposal to allow institutions to set lower annual loan limits for groups of students that the institution believes should borrow less than the law allows. For example, a college might set a lower loan limit for students enrolled primarily in remedial courses or for students on public assistance. Third, and perhaps most important, it has recommended no increases in loan limits for the 1998 reauthorization, with the exception of modest increases in annual limits for graduate and first-professional students. While some would like an exception to be made for institutions with very high graduation rates and very low default rates, there is widespread agreement that loan limits should not increase for students at the vast majority of institutions. It remains to be seen how Congress will react to these proposals and whether the current consensus within the

community on loan limits will last, but each of these three developments should be seen as an encouraging sign that the higher education community is serious about keeping student borrowing under control.

Individual institutions also are taking steps to help students make good decisions about borrowing and managing their debt. Professional schools—especially schools of medicine—have taken a lead in this area, including a range of financial management topics in their curricula. Other professional schools, recognizing that managing large amounts of debt will be a critical skill for their graduates, are following suit. Likewise, many institutions are finding creative ways to ratchet up the loan counseling they provide students before they borrow. For example, Brigham Young University now has a web site that allows students to see the monthly payment for any loan amount and to plan how much they will borrow in each of their four years as undergraduates. More of these types of efforts are needed so that students borrow only what they absolutely need and do not simply check "accept" next to the maximum amount for which they're eligible.

Institutions also are starting to pay attention to credit card debt and to include information about this type of borrowing in their counseling programs. The higher education community must work with credit card companies to understand the nature and scope of student use of commercial credit and to encourage students to use credit responsibly.

Much more can and should be done, but the higher education community, researchers, and the lending community must move away from the unproductive activity of declaring a general crisis and toward the useful work of identifying and helping those students who are making poor decisions about borrowing or who will face real difficulties paying off their debt.

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Endnotes

1 Under the Stafford subsidized loan program, the federal government pays the interest students accrue while enrolled and for six months after leaving postsecondary education.

2 Students must demonstrate need to qualify for subsidized loans. The Stafford unsubsidized loan program is open to dependent undergraduates who do not qualify for subsidized loans and to all independent and graduate students. Prior to 1992, only graduate students and independent undergraduates were eligible for unsubsidized loans, then called Supplemental Loans for Students (SLS).

3 U.S. Department of Education, National Center for Education Statistics, 1993 Baccalaureate and Beyond Longitudinal Study, First Follow-up (B&B:93/94), Data Analysis System.

4 New England Education Loan Marketing Corporation. 1997. *Fact Sheet: National Student Loan Survey '97.* (Braintree, MA: New England Education Loan Marketing Corporation, 1997).

5 Dependent students are defined as undergraduates who are under 24 years of age, are unmarried, or have no dependents. Conversely, independent undergraduates must be at least 24 years of age, married, or have dependents. The income and assets of these students are not considered when determining eligibility for federal student aid.

6 Redd, Kenneth E. 1995. *The Effects of Higher Loan Limits and Need Analysis Changes on FFELP Borrowers in Pennsylvania, July 1992 to December 1993.* (Harrisburg, PA: Pennsylvania Higher Education Assistance Authority, 1995).

7 The student groups described in this section are defined as follows:

Dependent (see note 5):	Low-income:	Adjusted Gross Income (AGI) under $30,000
	Middle-income:	AGI $30,000 to $69,000
	Upper-income:	AGI $70,000 or more
Independent (see note 5):	Low-income:	AGI under $10,000
	Middle-income:	AGI $10,000 or more

8 Greene, Laura L. 1989. "An Economic Analysis of Student Loan Default." *Educational Evaluation and Policy Analysis* v11 n1 (Winter): 37-41. Volkwein, J. Frederick, and Szelest, Bruce P. 1995. "Individual and Campus Characteristics Associated with Student Loan Default." *Research in Higher Education* v36 n1 (February): 41-72.

Table 1

Percent of Students Finishing Degree Programs with Federal Student Loan Debt and Average Amount Borrowed by those Students, 1992-93 and 1995-96

		1992-93			1995-96			Difference in Average	Difference in Average
Degree	Institution	Percent Who Had Borrowed	Average Amount Borrowed	Average Monthly Payment*	Percent Who Had Borrowed	Average Amount Borrowed	Average Monthly Payment*	Amount Borrowed	Monthly Payment
Certificate	Community College	17	2,870	50	20	N/A	N/A	N/A	N/A
	Proprietary School	41	3,870	50	62	4,770	60	960	10
Associate	Community College	20	4,380	55	25	5,450	70	1,070	15
	Proprietary School	62	6,540	80	85	10,790	130	4,250	50
Bachelor's	Public four-year	35	7,400	90	52	11,950	150	4,550	60
	Private four-year	41	10,190	125	54	14,290	175	4,100	50
Master's**	Public four-year	35	10,470	130	50	15,170	185	4,700	55
	Private four-year	38	11,770	145	57	21,410	260	9,640	115
Doctorate**	All institutions	47	16,730	205	34	20,490	250	3,760	45
Professional**	Public four-year	66	21,100	230	78	46,830	575	19,730	245
	Private four-year	61	32,000	390	72	49,540	610	17,540	220

* Based on a standard 10-year repayment plan at 8.25 percent annual interest rate.

** Average Amount Borrowed includes federal student loans to finance undergraduate education.

N/A Sample size too small to provide a reliable estimate.

Sources: U.S. Department of Education, National Center for Education Statistics, National Postsecondary Student Aid Study, 1992-93 and 1995-96.

Table 2

Percent of BA Recipients with Federal Student Loan Debt and Average Amount Borrowed, by Family Income, 1995-96

Family Income	Public Four-year: Percent Who Had Borrowed	Public Four-year: Average Amount Borrowed	Private Four-year: Percent Who Had Borrowed	Private Four-year: Average Amount Borrowed	Percent Distribution of BA Recipients Who Borrowed
Less than $30,000	66	12,550	70	15,240	45
$30,000 - $49,999	56	12,370	67	13,790	18
$50,000 - $69,999	48	10,320	42	13,500	16
$70,000 or more	24	9,290	29	12,360	21
All Income Levels	52	11,950	54	14,290	100

Source: U.S. Department of Education, National Center for Education Statistics, National Postsecondary Student Aid Study, 1995-96

Figure 1

Annual Volume and Number of Loans in the Federal Student Loan Programs, 1966 to 1996

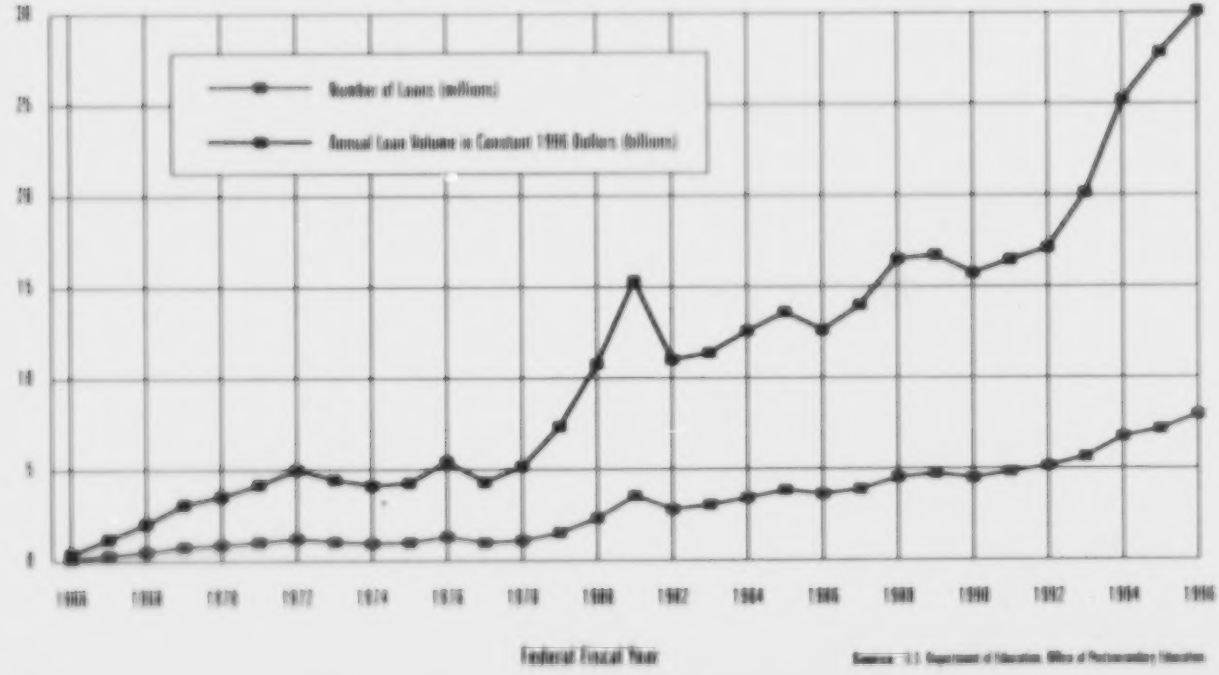

Figure 2

Share of Growth in Undergraduate Stafford Volume, 1992-93 to 1995-96, Attributable to Various Income and Dependency Groups

Figure 3

Share of Increase in Number of Undergraduate Stafford Borrowers, 1992-93 to 1995-96, Attributable to Various Income and Dependency Groups

Source: U.S. Department of Education, National Center for Education Statistics, National Postsecondary Student Aid Study, 1992-93 and 1995-96.

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Reality Bites: How Much Do Students Owe?

Patricia M. Schenchel / USA Group

The unprecedented pace of student borrowing under the federal education loan programs during the 1980s is fueling serious concern about the ability of many students to manage their post-school debt burdens. Financial aid administrators, public policymakers, and lawmakers are increasingly voicing fears that student borrowing is reaching excessive levels. The danger that increasing post-school debt burdens will put more borrowers at risk of default is but one of their concerns. Just as worrisome are nagging questions about whether the prospect of hefty student loan payments may force a generation of college students, especially those planning to pursue graduate degrees, to limit their education choices, restrict their career plans to more lucrative fields of work, or fundamentally alter family and lifestyle goals.

The potential repercussions are sobering. Should the rise in student indebtedness reverse the current downward trend in the nation's student loan default rate, lawmakers could decide to restrict the availability of federal education loans. Bigger post-school debt burdens will require borrowers to allocate more discretionary income to their monthly student loan payments, reducing their financial capacity to buy cars, purchase and furnish their homes, save for their children's college expenses, and build a retirement nest egg. Mounting debt loads could reduce the supply of students willing to pursue low-paying public

service careers, in teaching and social work, for example. Worse yet, some individuals may conclude they simply cannot afford to invest in a college degree. In response to these concerns, researchers in the higher education community are seeking to measure debt burdens and the ability of borrowers to meet their monthly student loan payments. Critical to their analysis is the ability to accurately and consistently monitor borrowing and repayment trends, but the supply of up-to-date debt burden statistics is limited.

Just how much do we know about student debt burdens? The U.S. Department of Education (the Department) tallies aggregate, national new loan volume and average loan disbursements on a quarterly basis. Between the inception of the federal loan programs in 1966 and the end of fiscal year 1996, students and parents borrowed $239.2 billion. They borrowed fully one-third of this amount—$79.1 billion—in just the past three fiscal years (FY 1994, FY 1995, and FY 1996). During this time, the average loan amount issued by lenders has been rising steadily.

The Department does not track annual changes in cumulative indebtedness on an aggregate basis—that is, how much borrowers typically owe upon leaving school. The current research on post-school debt burdens primarily relies on data generated by a triennial sampling survey—the National Postsecondary Student Aid Study (NPSAS), conducted by the National Center for Education Statistics (NCES), and occasional papers and reports.

The NPSAS surveys provide a rich source of data on indebtedness, but their triennial schedule limits their effectiveness in tracking growth in student debt levels. An annual series would not only improve the ability to measure the growth rate in indebtedness but also potentially aid researchers in gauging the impact of a changes in interest rates, tuition increases, economic conditions, and other factors in borrowing patterns.

An up-to-date data series on student indebtedness is just one piece of the debt burden puzzle. The financial aid community and policymakers also need statistical tools for measuring the ability of recent graduates to repay their debts. How much debt an individual can afford is contingent on several factors, including income and the rate of interest the borrower must pay. The length of the payback period and the type of repayment plan are also key determinants.

One of the most frequently cited measures of affordability is the percentage of gross monthly income needed to cover the monthly student loan installment; this is known as the debt to income ratio. Lenders typically recommend that the

monthly student loan installments not exceed 8 percent of the borrower's pretax income in order to ensure that borrowers have sufficient funds available to cover taxes, car payments, rent or mortgage payments, and household expenses.

Yet, debt to income ratios are of limited use to lenders in gauging payment stress. Some borrowers, particularly those with large credit card balances, may experience payment stress at ratios of less than 8 percent. Moreover, borrowers generally do not have to report their post-school incomes to lenders. From an operations standpoint, the financial aid community and lenders could be well served by the development of other payment stress indicators, based on more readily available information, such as borrower payment status.

USA Group Study

In 1996, USA Group, Inc., and its affiliate, USA Group Loan Services, began a long-term project to determine whether and how the portfolio of student loans administered by USA Group Loan Services could reflect *current* trends in student debt burdens. Although the loan servicing portfolio cannot be viewed as perfectly representative of the universe of student loans, it offers the size and scope needed for a national study. USA Group Loan Services currently manages an education loan portfolio of $11.6 billion on behalf of approximately 150 lenders. In all, USA Group Loan Services works with more than one million student and parent borrowers located nationwide.

The goal of this project is to lay the groundwork to develop a mechanism for monitoring and analyzing current trends in student debt loads and the ability of borrowers to repay their education loans. The first phase of the USA Group study has focused on determining the average Stafford debt burden facing students when they graduate or leave school, tracking annual changes in student debt burdens, and identifying indicators of payment stress, including delinquency rates and use of reduced-payment options.

Scope of the Study

This study measures average Stafford debt burdens by examining USA Group Loan Services' account records for borrowers who left school and entered the post-school grace period during the first six months of the calendar year. At this stage of the project, USA Group has debt burden estimates for 1995, 1996, and 1997. These estimates are based on th· loan records of more than 250,000 borrowers.

The study examines debt levels for four categories of borrowers: undergraduates attending four-year institutions, graduate students, borrowers attending two- or three-year colleges, and students enrolled in proprietary institutions. In addition to determining the average (mean) Stafford loan balance for borrowers entering the grace period, the study provides a debt-range distribution to show the concentration of borrowers with low, moderate, and heavy debt loads.

The study gauges debt levels in two ways. The first focuses on the *principal balance* owed by borrowers when they left school. This series, thus, measures average total disbursements of Stafford loans. The second measures the average *total loan balance*—that is, principal owed at the time the borrowers entered the six-month, post-school grace period plus accrued interest. This takes into account borrowers' increasing dependency on unsubsidized Stafford loans, which do not offer any federal interest subsidy while the borrowers are in school.

In addition, the study is seeking to establish indicators of payment stress. For example, the study has begun to examine delinquency rates and selection rates for the various repayment options (including standard, graduated, and income-sensitive payment plans) available to borrowers. Borrower delinquency rates are well-established indicators of payment stress for both the home mortgage industry and credit card issuers.

Size of Borrower Database

USA Group examined the records of more than 250,000 Stafford borrowers who entered the grace period during the first six months of 1995, 1996, and 1997. Nearly three-fifths (about 58 percent) of these borrowers were classified as undergraduate students attending four-year institutions. Graduate students accounted for about 10 percent; students attending two- or three-year colleges, 12 percent; and proprietary school students, approximately 20 percent. As noted earlier, the database includes borrowers from across the United States. In addition, the study examined the repayment status of its entire portfolio of post-grace period Stafford borrowers.

Data Limitations

At present, the USA Group study is restricted to subsidized and unsubsidized Stafford loan balances; the debt burden estimates do not include other types of guaranteed loans issued under the Federal Family Education Loan Program (FFELP). Stafford loans issued under the Federal Direct Loan Program (FDLP)

are not included. USA Group Loan Services does not compile any information regarding Federal Perkins Loans, which are administered by schools. At this time, the study cannot provide breakdowns for borrowers attending public institutions versus borrowers attending private schools; nor can it differentiate between borrowers who completed their degree or certificate programs and those who did not.

Because the USA Group study is based on virtually its entire loan servicing portfolio, the results are not subject to sampling error, at least as they pertain to USA Group's customer base. Although the USA Group portfolio may not perfectly represent the entire universe of student loans, the study may provide a useful proxy for a national estimate of post-school debt burdens and suggest a framework for monitoring the ability of Stafford borrowers to repay their education debts.

Summary of Results

The four sections following examine (1) average cumulative Stafford loan balances—principal only; (2) average total Stafford loan balances, including principal and accrued interest; (3) the distribution of borrowers across a range of debt levels; and (4) the minimum annual income levels needed to support post-school debt burdens. The fifth section discusses possible statistical indicators of borrower payment stress.

1. Average Cumulative Stafford Balances—Principal Only

All of the borrower categories showed debt gains in both 1996 and 1997. However, growth in the typical graduate debt burden clearly outpaced the increases in average Stafford borrowing by undergraduate, community college, and proprietary school debt burdens.

Graduate/professional students

Cumulative Stafford borrowing by graduate students skyrocketed by 41.6 percent in 1996 and then soared an additional 22.8 percent in 1997. Based on the USA Group study, graduate and professional students who left school in the first half of 1997 owe, on average, $19,568. This total includes Stafford loans incurred during the borrowers' undergraduate studies.

Undergraduates

During the past two years, the average amount of Stafford loans borrowed by undergraduates to finance studies at a four-year college or university rose by about 11.5 percent. As shown in Table Two, the typical undergraduate leaving school in the first half of 1997 is likely to have accumulated at least $9,448 in subsidized and unsubsidized Stafford loans. The data indicate that the pace of growth in Stafford borrowing may be slowing for undergraduate borrowers as a group. In 1997, the average Stafford principal balance increased by about 3.7 percent from the average Stafford balance for borrowers who left school in the first half of 1996. In contrast, the average 1996 Stafford principal balance jumped 7.6 percent from the previous year's level.

Community College / Two-Year School Students

For borrowers who left community colleges and other two- and three-year schools (both public and private) in the first half of 1997, the estimated average Stafford principal balance is $4,251, an increase of 8.3 percent from the prior year's level. In 1996, the average cumulative Stafford principal balance rose 11.1 percent to $3,924.

Proprietary / Vocational Students

Stafford debt loads for students attending proprietary schools also show substantial growth. The average amount borrowed grew by 10.5 percent in 1997, to $7,122. Average Stafford borrowing for students who left school in 1996 was $6,444, up 29.4 percent from 1995.

II. Average Total Stafford Debt Burdens, Including Principal and Accrued Interest

To analyze the impact of the growing reliance on unsubsidized Stafford loans, the USA Group study compiled cumulative debt totals that include both principal and the amount of interest that has accrued (but has not yet been paid) by the students' departure date. The general practice for lenders served by USA Group Loan Services is to let interest accrue on a simple basis during a borrower's in-school period and the grace period. This interest is then capitalized in a lump sum at the beginning of the repayment period. After interest is capitalized, the borrower pays interest on interest. (This method is less costly to borrowers than other capitalization options available to lenders; federal rules allow interest to be capitalized as frequently as quarterly.)

Accrued interest increased the average cumulative Stafford debt for graduate students leaving school in the first half of 1997 by 4.5 percent, to an estimated $20,457 (Table Three). In contrast, for students leaving graduate school in the first half of 1995, accrued interest increased average indebtedness by only 0.9 percent to $11,359 from $11,256.

According to the study's results, the average cumulative Stafford loan balance, including principal and accrued interest, for undergraduate borrowers leaving school in the first half of 1997 is an estimated $9,723, $275 more than the average principal-only a balance of $9,448. Thus, accrued interest increased the average balance by 2.9 percent. The average total Stafford balance exceeded the average Stafford principal balance by 2.1 percent in 1996 and 0.9 percent in 1995.

For proprietary school students, accrued interest increased the 1997 average cumulative loan balance by 3.4 percent to $7,364. A year earlier, interest increased the typical Stafford debt loan by $180, or 2.8 percent, to $6,624.

Students attending community colleges or other two-year and three-year schools experienced the least pronounced differentials between average Stafford principal balances and average total Stafford balances. For community college borrowers leaving school in the first half of 1997, accrued interest increased the average total Stafford balance by 2.5 percent to $4,358. The shorter academic careers of these students, of course, reduce the need for debt financing and the impact of accruing interest.

III. Debt Burden Levels: Borrower Distribution

USA Group's study shows that more students are joining the ranks of the heavily indebted. An examination of the distribution of borrowers across a range of debt levels shows that the share of undergraduate and graduate student borrowers who leave school with debts in excess of $25,000 has increased significantly during the past two years.

The share of graduate students who borrow more than $25,000 appears to be expanding at a sobering rate. In all, 23.6 percent of the graduate students leaving school in the first half of 1997 have borrowed at least $25,000 in Stafford loans, up from 18.8 percent in 1996 and 9.9 percent in 1995. After taking into account accrued interest, an estimated 24.1 percent of graduate Stafford borrowers have accumulated debts in the $25,000 and up category. The average level of total Stafford indebtedness (principal and interest) for graduate students

in this group has risen dramatically, from $35,836 in 1995 to an estimated $54,646 in 1997.

Although the $25,000 and up club accounts for a minority of undergraduate borrowers, a three-fourths increase in this group—from 3.0 percent of the 1995 cohort of borrowers to 5.3 percent of the 1997 cohort—is noteworthy. When accrued interest is included in the average debt totals, the share of undergraduates who have to repay $25,000 or more rises to 5.8 percent.

Only about one in 100 students attending proprietary schools amass Stafford debts in excess of $25,000. However, even this group of borrowers has seen a significant increase. Just 0.1 percent of all Stafford borrowers who left proprietary schools in first half of 1995 owed at least $25,000 (in principal and accrued interest). By 1997, this group's share had risen to an estimated 1.2 percent. The percentage of the borrowers owing $10,000 to $24,999 has nearly tripled—from 8.5 percent to nearly 24 percent—since 1995.

At present, approximately two out of three borrowers who attended community and other two- and three-year colleges owe less than $5,000, based on the 1997 data. About 27 percent accumulated Stafford debts of $5,000 to $9,999. A scant percentage of two-year college students have borrowed $20,000 or more. Two years ago, none of the borrowers in this category owed more than $20,000.

IV. Minimum Annual Income Needed to Support Post-School Debt Burdens

Rising Stafford debt burdens are raising the minimum income levels borrowers must meet and maintain to successfully and comfortably repay their loans. A number of lenders recommend that a borrower's monthly student loan payments should not exceed 8 percent of the borrower's monthly income. At this level, the borrower should have sufficient discretionary income to cover essential living expenses and maintain other debt service (car loans, credit cards, etc.).

Using a debt to income ratio of 8 percent, a new college graduate would need an annual income of at least $17,695 to support the average undergraduate Stafford debt load of $9,723, assuming an interest rate of 8 percent, a standard, 10-year repayment period, and a monthly payment of $118. Two years ago, a borrower needed an income of just $15,562—nearly $2,000 less than at present—to comfortably afford to repay the then-typical Stafford debt burden of $8,551.

The income hurdle is much more challenging for heavily indebted borrowers, especially the 25 percent of graduate students who leave school owing $25,000

or more. This group's average debt burden (including accrued interest) in 1997 is $54,646. To repay this amount under the standard repayment plan, the borrower would have to make monthly payments of $663 for 10 years. Based on the 8 percent income guideline, the borrower would need a gross, annual household income of $99,451 to support this payment.

By arranging a consolidation loan (carrying an interest rate of 8 percent), a borrower who owes $54,646 can more than double the length of the repayment period to 25 years and reduce the payment from $663 to $422. Yet, under the 8 percent rule, the borrower would need an annual income of $63,265 to meet this obligation. Moreover, extended repayment carries a heavy price: the borrower's total interest expenses would nearly triple to almost $72,000.

1997 debt burden data include average cumulative principal balance of Stafford loans and accrued interest. Monthly payment calculations assume a constant interest rate of 8 percent over a 10-year repayment period.

V. Development of Payment Stress Indicators

Although debt to income ratios help borrowers gauge their ability to repay their loans, in most instances lenders and loan servicers cannot directly monitor, in most instances whether borrowers have sufficient income to meet their student loan payments. USA Group is exploring several alternative indicators, including repayment plan selection rates and portfolio delinquency rates.

Repayment Plan Selection Rates

The USA Group study is developing a system for tracking repayment plan selection rates for Stafford borrowers who are just starting to repay their loans. This endeavor includes an analysis of repayment plan selection rates for borrowers seeking loan consolidation. Borrowers can extend their repayment periods by consolidating their loans and, depending on interest rate levels and the length of the extended payback period, reduce their monthly payments by as much as 40 percent under the standard, level-payment plan. Consolidation borrowers can free even more discretionary income by selecting a graduated or income-sensitive repayment plan.

As Table Five shows, 93 of every 100 borrowers who entered repayment during the 12-month period ending June 30, 1997, chose to repay their loans under a level repayment option. In contrast, nearly seven of every 100 borrowers are repaying their education loans under the graduated repayment plan. Just 25 of

every 10,000 borrowers served by USA Group Loan Services have elected to tie their payments to their incomes under the income-sensitive repayment option.

Although the number of borrowers who select income-sensitive repayment terms is quite small, the study's data may indicate a significant increase in the use of this plan. According to an April 1997 survey of repayment-plan selection rates for the entire USA Group Loan Services portfolio, only 16 of every 10,000 borrowers were repaying their loans under the income-sensitive plan (Table Six).

Repayment Status and Delinquency Rates

USA Group has begun work on a repayment status series that tracks delinquency rates for Stafford borrowers and monitors the use of deferment and forbearance benefits, which are unique to the federal student loan programs. These rates, which are calculated as percentages, are based on the number of Stafford borrowers who have entered the repayment phase of their loans. This study tracked repayment status on an end-of-quarter basis for the past 10 quarters—second quarter 1995 through third quarter 1997.

Two different sets of rates have been calculated, one for borrowers with subsidized Stafford loans and another for borrowers with unsubsidized Staffords. (These are not mutually exclusive sets of borrowers.) Borrowers who are in school or the post-school grace period are not included in the base, since these borrowers have not yet begun to repay their loans and, in effect, cannot be deemed delinquent.

Based on the findings shown in Table 12 and 13, gross delinquency rates for both subsidized and unsubsidized Stafford borrowers have been following an uneven, downward course since mid-1995. This fact does not necessarily suggest that fewer borrowers are experiencing payment stress, because, over the same period, the percentage of borrowers—especially borrowers with unsubsidized Stafford loans—who are in active repayment also has been on a downward trend. Offsetting these declines is an increased reliance on forbearance.

Greater use of forbearance could be a sign that a growing number of borrowers are unable to meet their student loan payments and are trying to postpone them. Still, to some extent, the rising forbearance rate may reflect the efforts of USA Group's default prevention staff to help delinquent borrowers return to a satisfactory payment status. In other words, we may not be seeing an increase in distressed borrowers, but an increase in distressed borrowers who are being successfully counseled.

Borrowers with unsubsidized Stafford loans, which are not need-based, are more likely to be delinquent, in deferment, or in forbearance than the subsidized Stafford group. Indeed, nearly one of five post-grace period, unsubsidized Stafford borrowers was in forbearance at the end of September 1997. In contrast, only 14 percent of borrowers with subsidized Stafford loans were in forbearance. As a result, less than 55 percent of borrowers with unsubsidized Staffords are in repayment, compared to 62.3 percent of their subsidized Stafford counterparts.

Conclusions

USA Group's debt burden research clearly shows that students are going deeper into debt to finance their postsecondary education. Graduate students have shown the greatest willingness to borrow under the Stafford loan program. However, debt burdens appear to be rising rapidly for students attending community colleges and other two- and three-year institutions, and proprietary schools.

The concentration of heavily indebted borrowers is growing. At present, one of four graduate students can expect to leave school with at least $25,000 in Stafford loans. The average debt burden for this group is pushing $55,000.

Higher debt burdens mean bigger monthly payments to lenders. Yet, the vast majority of Stafford borrowers who have recently entered repayment are continuing to rely on the standard, 10-year repayment plan. Only 7 percent have chosen to reduce their monthly payments by selecting graduated or income-sensitive repayment terms.

In contrast, nearly 17 percent of borrowers who recently arranged consolidation loans selected reduced payment plans. This is a significant difference, especially in light of the fact that a primary reason to consolidate is to reduce the monthly payment burden by extending the repayment period. When borrowers consolidate their loans, they are making a conscious decision to accept a substantial increase in interest expense as a trade-off for more discretionary income now. Interest expenses will be even greater for those choosing graduated or income-sensitive repayment. Clearly, given the high balances for consolidation loans being repaid under graduated and income-sensitive payment schedules, these borrowers are seeking payment relief.

A reduction in delinquency rates at first appears to offer evidence that borrowers are not having trouble paying their loans despite the increase in indebtedness. Yet, the percentage of borrowers in active repayment has also

drifted downward since mid-1995. A closer look at USA Group's portfolio of post-grace period Stafford borrowers reveals that the decline in the delinquency and repayment rates has been offset primarily by an increase in the use of forbearance. This trend may reflect a growing incidence of payment stress among borrowers and thus warrants continued monitoring.

The growing ranks of heavily indebted borrowers, especially among graduate students, underscores a need for more targeted loan counseling services and materials. Many of the existing consumer brochures and counseling programs are geared to the needs of undergraduate borrowers. But money management issues are likely to be considerably different for graduate students who leave school owing house-size Stafford debts. In addition, given the growing reliance on unsubsidized Stafford loans, today's borrowers would be well served by more information on how to minimize the interest accrual on these debts.

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Table 1

Borrower Database for Debt Burden Analysis

(Approximately three-fifths of the borrowers covered by the study are undergraduates.)

	Number of Borrowers Entering Grace Period
1997	84,000
1996	97,000
1995	79,000

Table 2

Average Cumulative Stafford Borrowing

		Annual % Change
Graduate Students		
1997	$19,668	+ 22.8%
1996	$16,014	+ 41.8%
1995	$11,294	—
Undergraduate Students		
1997	$ 8,448	+ 3.7%
1996	$ 8,145	+ 7.8%
1995	$ 8,473	—
Community/2- and 3-Year College Students		
1997	$ 4,251	+ 8.3%
1996	$ 3,924	+ 11.1%
1995	$ 3,537	—
Proprietary School Students		
1997	$ 7,122	+ 10.5%
1996	$ 6,444	+ 29.4%
1995	$ 4,981	—

Figures include the cumulative principal balance of Stafford loans for borrowers leaving school in the first half of the year. Figures exclude accrued but not yet capitalized interest.

Table 3

Average Cumulative Stafford Loan Balances

		Impact of Accrued Interest on Average Balance	
Graduate Students			
1997	$20,467	+ $869	+ 4.5%
1996	$16,357	+ $423	+ 2.7%
1995	$11,359	+ $103	+ 0.9%
Undergraduate Students			
1997	$ 9,723	+ $275	+ 2.9%
1996	$ 8,302	+ $187	+ 2.1%
1995	$ 8,551	+ $ 78	+ 0.9%
Community/2- and 3-Year College Students			
1997	$ 4,358	+ $107	+ 2.5%
1996	$ 4,004	+ $ 80	+ 2.0%
1995	$ 3,565	+ $ 33	+ 0.9%
Proprietary School Students			
1997	$ 7,384	+ $242	+ 3.4%
1996	$ 6,674	+ $160	+ 2.4%
1995	$ 5,037	+ $ 56	+ 1.1%

Figures include average cumulative principal balance of Stafford loans and accrued but not yet capitalized interest for borrowers leaving school in the first half of the year.

Table 4

Income Levels Needed to Support Average Stafford Debt Burdens

(Lenders typically urge borrowers to limit their student loan payments to no more than 8 percent of their incomes.)

Graduate Students	
Average Debt Burden	$20,457
Monthly Payment	$248
Minimum Annual Income Needed to Meet 8% Rule	$37,230
Undergraduate Students	
Average Debt Burden	$9,773
Monthly Payment	$118
Minimum Annual Income Needed to Meet 8% Rule	$17,695
Community 2- and 3-Year College Students	
Average Debt Burden	$4,358
Monthly Payment	$53
Minimum Annual Income Needed to Meet 8% Rule	$7,931
Proprietary School Students	
Average Debt Burden	$7,384
Monthly Payment	$89
Minimum Annual Income Needed to Meet 8% Rule	$13,402

1997 debt burden data include average cumulative principal balance of Stafford loans and accrued interest. Monthly payment calculations assume a constant interest rate of 8 percent over a 10-year repayment period.

Table 5

Repayment Plan Selection Rates for Stafford Borrowers

Repayment Option	Borrower Distribution
Level Payments	93.07%
Graduated Payments	6.68%
Income-Sensitive Payments	0.25%
	100.00%

These percentages reflect payment plan selection rates for borrowers who entered repayment between July 1, 1996, and June 30, 1997.

Table 6

Repayment Plan Selection Rates Federal Consolidation Loans

Repayment Option	Borrower Distribution
Level Payments	83.39%
Graduated Payments	16.23%
Income-Sensitive Payments	0.37%
	100.00%

These percentages reflect payment plan selection rates for borrowers who entered repayment between July 1, 1996, and June 30, 1997. Percentages do not add to 100 percent due to rounding.

Table 7

Minimum Annual Income Needed to Support Debt Burdens of Graduate Students/Standard Repayment

Lenders recommend that student loan payments should not exceed 8% of the borrower's monthly income. Assuming an interest rate of 8%, the monthly payment for an average Stafford loan balance of $20,497 under the standard, 10-year repayment plan would be $244. The borrower would need an annual income of $37,230 to meet the 8% debt to income ratio.

	All Graduate Students Entering Post-School Grace Period	Graduate Students Who Leave School Owing					
		Less than $5,000	$5,000 to $9,999	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $24,999	$25,000 or more
First Half of 1997							
Average Post-School Debt Burden	$20,497	$2,772	$7,143	$12,148	$17,584	$22,147	$54,646
Monthly Payment Amount	$244	$50	$87	$147	$213	$268	$663
Annual Income Needed to Meet 8% Rule	$37,230	$7,500	$13,000	$22,094	$32,001	$40,306	$99,491
First Half of 1996							
Average Post-School Debt Burden	$16,357	$2,754	$7,172	$12,318	$17,487	$22,334	$45,242
Monthly Payment Amount	$198	$50	$87	$149	$212	$271	$549
Annual Income Needed to Meet 8% Rule	$29,168	$7,500	$13,052	$22,403	$31,816	$40,646	$82,337
First Half of 1995							
Average Post-School Debt Burden	$11,359	$2,708	$7,181	$12,164	$17,077	$22,414	$35,836
Monthly Payment Amount	$138	$50	$87	$148	$207	$272	$435
Annual Income Needed to Meet 8% Rule	$20,672	$7,500	$13,069	$22,137	$31,079	$40,792	$65,219

Notes: Stafford loans charge a variable interest rate that is adjusted annually, subject to a maximum rate of 8.25%. For calculation purposes, the interest rate is assumed to hold constant at 8%. Stafford borrowers are required to make minimum monthly installments of $50; thus, small-dollar loan balances (less than $4,200) will be repaid in less than 10 years. Numbers are rounded to whole dollars.

Source: USA Group Loan Services, Inc./USA Group, Inc.

Table 8

Minimum Annual Income Levels Needed to Support Debt Burdens of Undergraduate Students/Standard Repayment

Lenders recommend that student loan payments should not exceed 8% of the borrower's monthly income. Assuming an interest rate of 8%, the monthly payment for an average Stafford loan balance of $8,773 under the standard, 10-year repayment plan would be $118. The borrower would need an annual income of $17,695 to meet the 8% debt to income ratio.

	All Undergraduate Students Entering Post School Grace Period	Undergraduate Students Who Leave School Owing					
		Less than $5,000	$5,000 to $9,999	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $24,999	$25,000 or more
First Half of 1997							
Average Post School Debt Burden	$8,773	$2,762	$8,949	$12,175	$17,271	$22,184	$33,114
Monthly Payment Amount	$118	$60	$84	$148	$210	$268	$402
Annual Income Needed to Meet 8% Rule	$17,695	$7,500	$12,847	$22,157	$31,432	$40,227	$60,765
First Half of 1996							
Average Post School Debt Burden	$8,307	$2,733	$8,993	$12,143	$17,185	$22,188	$31,971
Monthly Payment Amount	$113	$60	$85	$147	$209	$269	$387
Annual Income Needed to Meet 8% Rule	$16,929	$7,500	$12,727	$22,098	$31,275	$40,398	$58,093
First Half of 1995							
Average Post School Debt Burden	$8,557	$2,658	$7,837	$12,146	$16,899	$22,120	$31,283
Monthly Payment Amount	$104	$60	$85	$147	$205	$268	$379
Annual Income Needed to Meet 8% Rule	$15,562	$7,500	$12,807	$22,105	$30,755	$40,256	$56,787

Notes: Stafford loans charge a variable interest rate that is adjusted annually, subject to a maximum rate of 8.25%. For calculation purposes, the interest rate is assumed to hold constant at 8%. Stafford borrowers are required to make minimum monthly installments of $50, thus, small-dollar loan balances (less than $4,200) will be repaid in less than 10 years. Numbers are rounded to whole dollars.

Source: USA Group Loan Services, Inc. USA Group, Inc.

Table 9

Minimum Annual Income Needed to Support Debt Burdens of Two-Year School Students/Standard Repayment

Lenders recommend that student loan payments should not exceed 8% of the borrower's monthly income. Assuming an interest rate of 8%, the monthly payment for an average Stafford loan balance of $4,358 under the standard, 10-year repayment plan would be $53. The borrower would need an annual income of $7,931 to meet the 8% debt to income ratio.

	All 2- and 3-year Students Entering Post-School Grace Period	2- and 3-year Students Who Leave School Owing: Less than $5,000	$5,000 to $9,999	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $24,999	$25,000 or more
First Half of 1997							
Average Post-School Debt Burden	$4,358	$2,600	$6,760	$12,199	$16,786	$21,659	$26,781
Monthly Payment Amount	$53	$50	$82	$148	$204	$263	$325
Annual Income Needed to Meet 8% Rule	$7,931	$7,500	$12,303	$22,201	$30,567	$39,418	$48,757
First Half of 1996							
Average Post-School Debt Burden	$4,004	$2,452	$6,701	$12,276	$16,650	$21,313	—
Monthly Payment Amount	$50	$50	$81	$149	$202	$258	—
Annual Income Needed to Meet 8% Rule	$7,500	$7,500	$12,195	$22,341	$30,307	$38,788	—
First Half of 1995							
Average Post-School Debt Burden	$3,516	$2,387	$6,589	$11,136	—	—	—
Monthly Payment Amount	$50	$50	$80	$135	—	—	—
Annual Income Needed to Meet 8% Rule	$7,500	$7,500	$11,991	$20,267	—	—	—

Notes: Cumulative loan amounts include principal and accrued interest. Stafford loans charge a variable interest rate that is adjusted annually, subject to a maximum rate of 8.25%. For calculation purposes, the interest rate is assumed to hold constant at 8%. Stafford borrowers are required to make minimum monthly installments of $50; thus, small-dollar loan balances (less than $4,200) will be repaid in less than 10 years. Numbers are rounded to whole dollars.

Source: USA Group Loan Services, Inc./USA Group, Inc.

Table 10

Minimum Annual Income Needed to Support Debt Burdens of Proprietary School Students, Standard Repayment

Lenders recommend that monthly student loan payments should not exceed 8% of the borrower's monthly income. Assuming an interest rate of 8%, the monthly payment for the average Stafford loan balance of $7,364 under the standard 10-year repayment plan would be $89. The borrower would need an annual income of $13,407 to meet the 8% debt to income ratio.

	All Proprietary Students Entering Post-School Grace Period	Proprietary Students Who Leave School Owing					
		Less than $5,000	$5,000 to $9,999	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $24,999	$25,000 or more
First Half of 1997							
Average Post-School Debt Burden	$7,364	$2,642	$7,169	$12,369	$17,354	$21,753	$30,477
Monthly Payment Amount	$89	$50	$163	$163	$211	$264	$369
Annual Income Needed to Meet 8% Rule	$13,407	$7,500	$13,047	$22,802	$31,563	$39,549	$55,375
First Half of 1996							
Average Post-School Debt Burden	$6,674	$2,898	$7,167	$12,539	$16,781	$21,813	$29,641
Monthly Payment Amount	$80	$50	$87	$152	$203	$265	$360
Annual Income Needed to Meet 8% Rule	$12,055	$7,500	$13,075	$22,870	$30,504	$39,698	$53,944
First Half of 1995							
Average Post-School Debt Burden	$5,037	$2,661	$6,963	$11,383	$17,022	$21,813	$30,285
Monthly Payment Amount	$61	$50	$84	$138	$207	$263	$465
Annual Income Needed to Meet 8% Rule	$9,167	$7,500	$12,672	$20,716	$30,979	$39,381	$69,675

Notes: Cumulative loan amounts include principal and accrued interest. Stafford loans charge a variable interest rate that is adjusted annually, subject to a maximum rate of 8.25 percent. For calculation purposes, the interest rate is assumed to hold constant at 8 percent. Stafford borrowers are required to make minimum monthly installments of $50, thus, small-dollar loan balances (less than $4,200) will be repaid in less than 10 years. Numbers are rounded to whole dollars.

Source: USA Group Loan Services Inc., USA Group, Inc.

Table 11

Repayment Plan Selection Rates for Consolidation Borrowers

More than four-fifths of the borrowers who consolidated their loans in the 12 months that ended June 30, 1997, selected the level-repayment plan. The high average balances for borrowers selecting graduated or income-sensitive repayment clearly indicates that these borrowers were seeking substantial debt burden relief.

	Level Repayment	Graduated Repayment	Income-Sensitive Repayment
Percentage of Borrowers Selecting Option	83.39%	16.23%	0.37%
Average Balance Being Repaid	$18,131	$79,850	$31,584
Monthly Payment for Average Balance*	$173	$661†	$211‡
Annual Income Needed to Support Monthly Payment at Debt to Income Ratio of:			
4%	$51,981	$165,397	$63,169‡
5%	$41,585	$132,318	
6%	$25,991	$82,694	
10%	$20,792	$66,155	
12%	$17,327	$55,129	
15%	$13,862	$44,103	

* Monthly payment calculations assume an 8% interest rate. The maximum payback period is assumed to be the maximum allowed for each initial loan balance: 15 years for the $18,131 balance, 30 years for the $79,850 balance, and 20 years for the $31,584 balance.

† The monthly payment is the initial monthly payment for the graduated repayment plan offered by USA Group Loan Services.

‡ Under the income-sensitive plan, borrowers are asked to make initial payments that are equal to 4 percent of the their monthly incomes or the amount of the accruing interest, whichever is greater. In this table, the initial payment for the income-sensitive plan is assumed to be an interest-only payment; this is the lowest payment permitted under the guaranteed loan program.

Note: Consolidation loans for Stafford borrowers may include non-Stafford loans, including, for example, Perkins loans and SLS loans.

Source: USA Group Loan Services, Inc./USA Group, Inc.

Table 12

Repayment Status for Subsidized Stafford Borrowers by Quarter

Delinquency rates have been generally moving downward since mid-1995. This decline has been offset by an increase in the percentage of borrowers in forbearance.

Repayment Status	06/30/95	09/30/95	12/31/95	03/31/96	06/30/96	09/30/96	12/31/96	03/31/97	06/30/97	09/30/97
In Repayment & Current	83.7%	80.2%	85.8%	84.4%	84.4%	83.4%	84.1%	83.2%	84.8%	82.2%
In Deferment	8.8%	11.3%	8.2%	10.7%	8.8%	8.1%	8.8%	8.8%	8.2%	8.8%
In Forbearance	8.8%	8.8%	7.8%	8.8%	8.2%	10.2%	10.8%	12.1%	12.8%	14.0%
Delinquent										
30-59 Days	5.8%	6.2%	5.8%	5.4%	5.7%	5.8%	5.8%	5.8%	5.1%	5.4%
60-89 Days	3.5%	4.0%	3.1%	3.2%	3.1%	4.1%	3.2%	3.4%	3.2%	3.5%
90-119 Days	2.2%	2.6%	2.1%	2.2%	2.0%	2.2%	2.2%	2.1%	1.8%	2.1%
120-149 Days	1.8%	1.6%	1.4%	1.2%	1.3%	1.5%	1.5%	1.1%	1.2%	1.2%
150 + Days	1.5%	1.4%	1.5%	1.0%	1.3%	1.4%	1.3%	0.9%	1.0%	1.0%
Total Delinquent	**14.9%**	**15.8%**	**13.9%**	**13.1%**	**13.4%**	**15.1%**	**13.8%**	**13.1%**	**12.5%**	**13.3%**
Seriously Delinquent (at least 90 days past due)	**9.3%**	**9.6%**	**8.1%**	**7.6%**	**7.7%**	**9.2%**	**8.2%**	**7.5%**	**7.4%**	**7.8%**
Default Claim	2.8%	3.0%	3.1%	2.7%	2.1%	2.1%	2.4%	1.7%	1.5%	1.8%
Other	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%

Source: USA Group Loan Services, Inc. USA Group, Inc.

Table 13

Repayment Status for Unsubsidized Stafford Borrowers by Quarter

Delinquency rates have been generally moving downward since mid-1995. This decline and a reduction in the percentage of borrowers in repayment have been offset by an increase in the percentage of borrowers in forbearance.

Repayment Status	06/30/95	09/30/95	12/31/95	03/31/96	06/30/96	09/30/96	12/31/96	03/31/97	06/30/97	09/30/97
In Repayment & Current	83.7%	82.8%	83.2%	58.8%	83.8%	58.1%	60.1%	57.8%	58.7%	54.8%
In Deferment	7.8%	8.8%	7.3%	10.1%	8.4%	9.4%	8.7%	10.2%	8.8%	9.5%
In Forbearance	8.3%	10.8%	10.1%	17.8%	17.8%	14.5%	14.6%	16.9%	18.8%	19.5%
Delinquent										
30-59 Days	1.4%	1.2%	1.4%	1.6%	1.7%	1.3%	1.3%	1.4%	1.3%	1.8%
60-89 Days	2.3%	1.3%	2.1%	1.8%	1.8%	1.3%	1.2%	1.8%	1.6%	1.8%
90-119 Days	1.8%	1.6%	1.8%	1.8%	1.2%	1.4%	1.2%	1.6%	1.1%	1.1%
120-149 Days	1.1%	1.2%	1.2%	1.2%	1.1%	1.1%	1.0%	1.2%	1.1%	1.2%
150 + Days	0.7%	1.1%	1.2%	1.2%	1.0%	1.0%	1.0%	1.0%	1.2%	1.2%
Total Delinquent	**12.3%**	**16.4%**	**13.1%**	**15.0%**	**15.1%**	**17.6%**	**13.0%**	**14.0%**	**13.4%**	**14.4%**
Seriously Delinquent (at least 60 days past due)	**6.9%**	**9.3%**	**7.7%**	**9.4%**	**9.5%**	**11.3%**	**8.6%**	**8.6%**	**8.4%**	**8.6%**
Default Claim	1.1%	1.3%	1.8%	2.2%	2.1%	2.2%	2.6%	1.8%	1.8%	1.6%
Other	0.8%	0.7%	0.4%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%

Source: USA Group Loan Services, Inc. USA Group, Inc.

Early Labor Force Experiences and Debt Burden

Susan P. Choy / MPR Associates, Inc.

In the 1992–93 academic year, 1.2 million individuals earned a bachelor's degree in the United States.[1] While students seek college degrees for many reasons, most expect a degree to give them both an immediate and long-term advantage in the labor market in terms of their employability and salary. Because college students invest a considerable amount of time and money to earn their degrees, it is important to find the answers to questions such as: What kinds of jobs do they get when they finish? How much money do they earn? What kinds of experiences do they have with unemployment? If they have borrowed to finance their education, what are the financial and other implications of this borrowing? Can they afford to pay back their loans without undue hardship? Does borrowing affect their further education and lifestyle choices? To address these questions, this analysis uses the Baccalaureate and Beyond Longitudinal Study (B&B) collected by the National Center for Education Statistics (NCES), which included approximately 11,000 students who received a bachelor's degree during the 1992–93 academic year.[2]

Background

The questions related to borrowing and debt burden have become particularly pressing in light of recent dramatic increases in borrowing. Over the past two

decades, borrowing has become an increasingly common way for undergraduates to finance their education. In 1990-91, for example, 65 percent of federal grant, loan, and work-study aid was awarded in the form of loans, compared with 39 percent 20 years earlier.[3] In the 1992-93 academic year, borrowing through the Federal Family Education Loan (FFEL) program totaled $14.9 billion.[4] With the introduction of unsubsidized Stafford loans for students not meeting the need criteria for subsidized loans, higher maximum loan limits, and changes in need analysis authorized by the Higher Education Act Amendments of 1992, borrowing grew suddenly and dramatically. In the 1993-94 academic year, the FFEL loan volume was $19.0 billion. In 1994-95 and 1995-96, federal loan volumes—which then included Ford Direct loans as well as FFEL loans—continued to increase, to $22.3 billion and then $24.4 billion.[5]

How much debt is too much? This question has been debated by legislators, policymakers, and members of the postsecondary community for more than a decade.[6] Without disputing the fact that loans provide students who otherwise would not have the resources to go to college a way to invest in their future, student debt levels and the growing dependence on loans have caused growing concern. One set of concerns centers on defaults, which have financial consequences for the students themselves, the institutions they attend, and the loan programs through which they have borrowed. A second set of concerns is that the prospect of borrowing and heavy debt may discourage students—especially minorities and others who are traditionally underserved—from enrolling in college education or cause them to drop out before they attain their educational goals. A third set of concerns focuses on how debt affects students' postgraduation plans; that is, does it prevent them from continuing their education to the next level, entering a field that is socially beneficial but not necessarily well paying (such as teaching), or buying a home or car or forming a family at approximately the same time as their peers without education loans to repay?

Implications of Recent Increases in Borrowing for This Analysis

Unfortunately, the impact of the dramatic increase in borrowing that started in 1993-94 is not captured in this analysis of the B&B:93/94 data because the students included in the analysis had either graduated or left school by then. To get some idea of how cumulative borrowing for bachelor's degree recipients

has changed with the recent aggregate increases in loan volume, the cumulative federal borrowing through Title IV programs by 4th- and 5th-year seniors was compared for 1992-93 and 1995-96. The proportion who borrowed increased from 39 percent to 52 percent (Table One). The increase was particularly large for dependent students from families with incomes in the $30,000 to $59,999 range—from 38 percent to 57 percent.

The 1992-93 4th- and 5th-year seniors in public four-year institutions borrowed an average of about $7,500 through Title IV loan programs for their undergraduate education. Three years later, in 1995-96, 4th- and 5th-year seniors at public four-year institutions borrowed an average of $11,200 for their undergraduate education, an increase of about $3,700 (almost 50 percent) more than the 1992-93 group. At private, not-for-profit institutions, the increase in the average amount borrowed between 1992-93 and 1995-96 was approximately $3,500, from $9,800 to $13,300, about 36 percent.

Early Labor Force Experiences

In Spring 1994, approximately one year after they graduated, most of the 1992-93 bachelor's degree recipients were in the labor force, even those who were continuing their formal education. Because most 1992-93 bachelor's degree recipients would have started repaying their loans by the spring of 1994, these early labor force experiences had important implications for their ability to make their payments.

Work and Enrollment Patterns

In April 1994, the vast majority of 1992-93 bachelor's degree recipients were employed (Figure One). Seventy-six percent were working only, and another 11 percent were combining education and work. The remaining 13 percent were about evenly divided between enrolling only and neither working nor enrolling. This last group included individuals who were unemployed (but looking for work) or not in the labor force (not employed and not looking for work).

Work/enrollment patterns varied by undergraduate major, but not by the type of institution attended (Table Two). Business and management majors were the most likely to be working only, while those with undergraduate majors in engineering, mathematics, or science were the most likely to be enrolled only.

Graduates of public and private, not-for-profit institutions had similar work/enrollment patterns. Borrowing for undergraduate education may discourage immediate enrollment in graduate school unless combined with work: borrowers were less likely than non-borrowers to be enrolled only, but the two groups were about equally likely to be enrolled and working.

Annual Salaries

Table Three shows the annualized salaries for 1992-93 full-time employed bachelor's degree recipients from their primary job in April 1994.[7] Their average annualized salary was about $24,000, with approximately two-thirds earning between $15,000 and $35,000. The average salary varied with gender and age and also by major field of study and type of institution attended.

Among the full-time employed, the average annual salary was higher for males than females, reflecting, at least in part, male-female occupational differences.[8] Average annual salary increased with age. This pattern may reflect older graduates' greater lifetime experience in the work force and in higher paid occupations.

Some undergraduate majors, at least initially, seem to lead to better paying jobs than others. However, it is important to keep in mind that beginning salary differences may not persist over the long term as experience and performance become more important than undergraduate education in determining labor market success. Full-time employed bachelor's degree recipients with undergraduate majors in business and management, and in engineering, mathematics, or science earned considerably higher average annual salaries than did those who majored in humanities or social sciences.

The average annual salary was about $2,000 more for a bachelor's degree recipient who graduated from a private, not-for-profit institution than for one who graduated from a public institution. This pattern has no straightforward explanation, but may reflect a number of interacting factors. Regional economic differences might contribute (private, not-for-profit institutions are more common in some parts of the country than others), as might occupational differences. For example, bachelor's degree recipients from private, not-for-profit institutions were slightly more likely than those from public institutions to work in business and management occupations, which pay more than many other occupations.

Experience With Unemployment

Another important aspect of labor force experience—and one that can seriously impact the ability to repay student loans—is unemployment. The unemployment rate for a particular group depends on their skills, abilities, and experience relative to the types of jobs available in their geographic area.

Unemployment Rates

In April 1994, 4.5 percent of all 1992-93 bachelor's degree recipients were unemployed (without a job but looking and available for work) (Table Four). Those who pursued graduate study had a higher unemployment rate than those who did not. To place these rates in context, the unemployment rate for the civilian noninstitutional population 25 to 44 years of age was 5.3 percent in January 1994. Taking into consideration education, the January unemployment rate was 2.9 percent for college graduates 25 to 64 years old (including those with graduate degrees) and 5.0 percent for those with some college, but less than a bachelor's degree.[9]

Periods of Unemployment

Some experience with unemployment in the first year after graduating appears to be relatively common for bachelor's degree recipients. Twenty-nine percent of the 1992-93 bachelor's degree recipients had been unemployed for at least one month since graduating. The percentages were similar for graduates of four-year public and private, not-for-profit institutions and did not vary according to undergraduate major.

There were some interesting differences among age groups. Bachelor's degree recipients who were more than 30 years old when they graduated were less likely than younger graduates to have been unemployed since graduating. This may reflect a longer time in the work force prior to graduation. In addition, older students are more likely than younger students to work full-time while enrolled.[10] Therefore, a greater proportion of older students may have continued with the same job or employer when they graduated. At the same time, however, graduates 30 years or older were more likely than graduates 24 years or younger to have been unemployed for nine months or more, suggesting that the older group may include more individuals with more severe employability problems.

Borrowing For Undergraduate Education

In 1992-93, the average annual cost of attending a postsecondary institution full-time—including tuition, fees, and living expenses—was $19,500 at private, not-for-profit four-year institutions and $11,100 at public four-year institutions. When these annual costs are multiplied by the number of years attended, the amounts are substantial. To help cover these costs, many students borrow, either through a student loan program or from relatives or friends.

Amounts Borrowed

The 1992-93 bachelor's degree recipients were asked to report the total amount they had borrowed to finance their undergraduate education and to include the amounts borrowed from all sources, including relatives and friends as well as student loan programs. Important to keep in mind when making comparisons among subgroups is that federal student loan programs limit both annual and total borrowing, which may reduce the variation in the amounts borrowed by students at different types of institutions and with different financial circumstances.

Overall, about one-half (49 percent) of all the 1992-93 bachelor's degree recipients borrowed at some point during their undergraduate education, including borrowing from relatives and friends as well as through student loan programs (Table Five). The average total amount borrowed from all sources was about $10,200. Tuition is higher, on average, at private, not-for-profit institutions than at public ones. Reflecting this higher tuition, graduates of private, not-for-profit institutions were more likely than graduates of public institutions to have borrowed, 54 percent compared with 46 percent, and, when they did borrow, borrowed a larger average amount, $12,800 compared with $8,700. About one out of five graduates of a private, not-for-profit institution borrowed at least $20,000.

The longer bachelor's degree recipients took to get their degrees, the more likely they were to have borrowed (Figure Two). However, those who took more than six years to finish borrowed less, on average ($9,300), than those who finished in four years or less ($11,000). This may reflect, at least in part, the fact that graduates of private, not-for-profit institutions (who borrowed more, on average, than their peers at public institutions) were more likely to finish in four years or less, 65 percent compared with 34 percent.[11] In addition, some of those who took six years or longer to finish may have taken longer because they were working and using their earnings to reduce the amount they needed to borrow.

Although some bachelor's degree seekers who start at two-year public institutions rather than four-year institutions may do so in order to reduce the total cost of obtaining their degree, 1992-93 bachelor's degree recipients who started at public two-year institutions were actually more likely than those who started at public four-year institutions to borrow at some point during their undergraduate education. On average, they borrowed about the same amount. Those starting at two-year institutions may have been more likely to borrow at least in part because they took longer to complete their postsecondary studies: 27 percent took more than six years, compared with 13 percent of those who started at public four-year institutions.[12] They may also have had greater overall financial need, which is related primarily to family income and the cost of the institution attended. In other words, they may indeed have started at a two-year institution to keep their costs down, but then had greater need than the average public four-year student when they later transferred to a four-year institution. The fact that bachelor's degree recipients who started at two- and four-year institutions borrowed similar amounts in total may reflect, at least in part, the fact that student loan programs limit the amounts borrowed.

Amounts Owed by Borrowers in 1994

By 1994, 17 percent of 1992-93 bachelor's degree recipients who had borrowed as undergraduates no longer owed any money (Table Six). In some cases, they may have paid off the loan, possibly with help from their parents or others, while others may have had the loan forgiven, especially if the loans were from parents or other relatives. Not all of these loans were necessarily paid back or forgiven after graduation; some may have been paid back or forgiven while the graduate was still enrolled. Another 28 percent of 1992-93 bachelor's degree recipients who had borrowed as undergraduates owed less than $5,000, and 26 percent owed between $5,000 and $9,999. The remaining approximately 30 percent owed $10,000 or more. Among those who still owed, the average amount owed was $9,000. (Among all borrowers, the average total amount borrowed was $10,200.) As one would expect, those from groups that tended to borrow more as undergraduates also tended to owe more a year after graduation.

Borrowing and Career Choices

Many worry that students who borrow to finance their education might have to be more concerned than those who do not borrow about factors such as a good starting salary, a job's income potential, and job security, thus limiting their career choices. Bachelor's degree recipients were asked some questions that can help shed some light on this issue. First, they were asked whether various factors (including financial ones) were important to them in determining the type of work they planned to do in the future. Second, they were asked if their April 1994 job was related to their degree, and if not, why they took the job. If they were feeling pressured by their loan obligations, one might expect borrowers to be more concerned than non-borrowers about financial factors in choosing a career and to be more likely to take jobs unrelated to their degree for financial reasons. The responses of bachelor's degree recipients to these questions provide no evidence that borrowers are making career choices differently than non-borrowers.

The 1992-93 bachelor's degree recipients were asked whether various factors were important to them in determining the type of work they planned to do in the future. Two factors very relevant to their ability to repay their loans were "good income potential" and "job security." Borrowers and non-borrowers were about equally likely to indicate that these were important to them (Table Seven). However, both borrowers and non-borrowers were more likely to indicate that "interesting work" and "intellectual work" were important to them than they were to indicate that job security was important.

Overall, 55 percent of 1992-93 bachelor's degree recipients reported that their job in April 1994 was closely related to their degree, and 20 percent reported that it was somewhat related (Table Eight). The remaining 25 percent reported that their job was not at all related. Non-borrowers were slightly more likely than borrowers to have an unrelated job, although there is no obvious reason why this would be so. Among graduates who took jobs that were unrelated to their degree, borrowers were not any more likely than non-borrowers to take a job for financial reasons. Among bachelor's degree recipients whose April 1994 job was not at all related to their degree, 22 percent said their main reason for taking the job was that it was the only one they could find, and 25 percent said the pay was better than that in other jobs (Table Nine). The percentages of graduates who took jobs for these reasons were similar for borrowers and non-borrowers.

Borrowing and Plans for Graduate School

Bachelor's degree recipients' immediate career choices do not appear to be related to borrowing. However, borrowing does appear to have some effect on whether they enroll in graduate school right away, with borrowers slightly less likely than non-borrowers to apply to graduate school, 27 percent versus 31 percent (Table 10).

Bachelor's degree recipients who said that they had considered applying to graduate school but then had not applied were asked the primary reason they had not applied. Ten percent of those who had borrowed as undergraduates said that having too much undergraduate debt was their main reason for not immediately enrolling in graduate school (Table 11). Five percent of those who borrowed less than $5,000 gave this reason, but 20 percent of those who borrowed $20,000 or more did so. Another roughly 20 percent of those who borrowed gave other financially related reasons for deciding against graduate school: 12 percent said graduate school cost too much, was not worth it, or they could not afford it; 6 percent said they had too much other debt; and 3 percent said they could not get enough financial aid. Those who had not borrowed were slightly less likely to give "cost too much" and "too much other debt" as their main reasons for deciding against graduate school.

Additional possible evidence of a negative relationship between undergraduate borrowing and subsequent graduate or other postsecondary enrollment was the earlier finding that non-borrowers were more likely than borrowers to be enrolled only, while the two groups were about equally likely to be combining work and enrollment (Table Two). These findings, however, do not take into account the relationships between either further enrollment or undergraduate borrowing and various student and institutional characteristics. Examining how enrollment and undergraduate borrowing are associated without considering these relationships may provide misleading results. A linear regression model was used to describe the relationship between immediate enrollment for further education and undergraduate borrowing while adjusting for the covariance of independent variables. The dependent variable was defined as the percentage of 1992-93 bachelor's degree recipients who were enrolled for graduate or other postsecondary education in April 1994. They might have been enrolled only or both working and enrolled. The independent variables included gender, race/ethnicity, age when they received their degree, whether or not they borrowed from any source for

their undergraduate education, type of institution from which they graduated, undergraduate major, and grades (GPA).

The results of the multivariate analysis are displayed in Table 12. The negative impact of undergraduate borrowing on immediate graduate or other postsecondary enrollment was confirmed. Among 1992-93 bachelor's degree recipients, borrowers were less likely than non-borrowers to be enrolled in graduate or other postsecondary education in April 1994. This relationship held regardless of whether they borrowed less than $5,000 or $5,000 or more. Because the B&B data were collected only one year after graduation, they do not permit any examination of longer term effects. However, because the 1995-96 National Postsecondary Student Aid Study (NPSAS) includes graduate students of all ages, it will be possible to use these data to examine the relationship between undergraduate borrowing and timing of graduate enrollment.

Loan Repayment And Debt Burden

Most student loan programs require borrowers to begin repayment six months after they leave school, although repayment can be deferred for a variety of reasons. For example, payments can be deferred if the borrower is enrolled in postsecondary education at least half-time, is unemployed, is participating in a qualifying service program such as the Peace Corps, or has an approved hardship (e.g., medical or financial). The terms for loans from families or friends are negotiated by the parties involved. Repayment schedules for these loans may be formal or informal, and some borrowers may even have their loans forgiven.

Understanding the extent to which education loan payments impose a financial burden on borrowers requires knowing something about the financial circumstances of the borrowers as well as the size of their payments. Therefore, other aspects of borrowers' financial circumstances, such as earnings, other expenses, and, if married, their spouse's educational debt, must be examined as well as loan repayment requirements. Links between borrowing and lifestyle choices might also indicate the extent to which education loan payments are burdensome.

Repayment Status

The majority of 1992-93 bachelor's degree recipients (63 percent) had no debt a year after graduating, either because they had never borrowed or because they had repaid their loans (Figure Three). Another 8 percent owed money but were

not required to make payments at the time, either because they were enrolled at least half-time, were in the grace period, had a deferment because of unemployment or hardship, or had taken loans only from family or friends and were not being required to make payments. Overall, 29 percent of all 1992-93 bachelor's degree recipients were required to make loan payments in 1994.[13]

Payment Amounts

A borrower's monthly payment for student loans depends on the size of the loan and the interest rate at which the loan was made. The Stafford Loan program, the most commonly used undergraduate loan program, calls for a 10-year repayment schedule, with a minimum monthly payment of $50. If, for example, a student borrowed $1,000 or less at 8 percent interest, the monthly payment would be $50. For a $5,000 loan at that interest rate, the monthly payment would be $61, and for a $10,000 loan, $120. As indicated above, payments on loans from relatives and friends are negotiated by the lender and borrower.

About 60 percent of the 1992-93 bachelor's degree recipients who were in repayment were paying between $50 and $150 per month on loans from all sources (including relatives and friends), with an average payment of $136 (Table 13). Reflecting the greater average amounts borrowed at private, not-for-profit institutions, bachelor's degree recipients from these institutions had higher average monthly payments than their counterparts who graduated from public institutions, $163 per month compared with $121.

Loan Payments as a Percentage of Monthly Earnings

As indicated earlier, understanding the extent to which education loan payments impose a financial burden on borrowers requires knowing something about the financial circumstances of the borrowers as well as the size of their payments. The most straightforward way to measure debt burden is to compute loan payments as a percentage of monthly income. In this analysis, salary data from B&B are used as proxies for income. If borrowers have other sources of income, their debt burden will be overstated here. However, it seems unlikely that students who borrowed to finance their undergraduate education would have significant amounts of non-earned income only a few years after graduating or leaving school.

At what point does debt burden become excessive? No consensus has developed, largely because of the need to make subjective judgments about

what percentage of their income new graduates should be expected to allocate to repaying their student loans. For example, should we be concerned that a borrower cannot afford to buy a house or a new car as soon as a non-borrower? Nevertheless, several studies have suggested that debt burden beyond 10 to 15 percent may be excessive. One study conducted by Westat, Inc. recommends accepting 10 percent as a defensible threshold because mortgage lenders generally expect a family's non-housing debts not to exceed 10 percent.[14] Hansen and Rhodes suggest that manageable debt burden varies with income, and propose a range from 10 percent to 15 percent.[15] A recent analysis by Greiner starts with 12 percent, based on guidelines established by the Department of Housing and Urban Development in 1989 that state that total debt should not exceed 41 percent of income, and that mortgage payments should not exceed 29 percent.[16] That leaves 12 percent for automobile, credit card, and student loans. If one argues that graduates should not expect to buy a home or new car immediately after graduating, 12 percent for student loans appears defensible. Factoring in the results of a survey of borrowers' perceptions of debt burden causes Greiner to propose 8 percent as an appropriate alternative. Contributing to this debate is beyond the scope of this analysis, but knowing what others have proposed as excessive provides a context within which to view the debt burden of the groups studied in this analysis.

For about two-thirds of the bachelor's degree recipients in repayment in 1994 and employed full-time, loan payments amounted to less than 10 percent of their April 1994 monthly salary. Thirty-one percent were paying less than 5 percent, and 38 percent were paying 5 to 9 percent (Table 14 and Figure Four). Sixteen percent were paying 15 percent or more, with the average at 9 percent.

Debt burden is related to salary and amount of debt. Thus, a low salary, high debt, or both, could cause an individual to have a high debt burden. Among the 1992-93 bachelor's degree recipients, the average percentage of monthly salary devoted to repaying loans decreased as salary increased, as one would expect. Graduates making less than $15,000 per year were devoting an average of 15 percent of their salary for loan payments, while those making $15,000 to $19,999 a year were paying an average of 9 percent and those making $25,000 to $34,999 were paying 6 percent.

As the amount owed increased, so did the average monthly payment. Loan payments amounted to an average of 6 percent of their monthly salary for

graduates who owed less than $5,000, 9 percent for those who owed $5,000 to $9,999, and 13 percent for those who owed $10,000 or more.

Graduates of private, not-for-profit institutions who were repaying loans were using an average of 10 percent of their monthly salary for this purpose, compared with 8 percent for graduates of public institutions. This difference reflects the greater average amount of borrowing among students at private, not-for-profit institutions, as graduates of private, not-for-profit institutions had slightly higher average salaries, in general, than graduates of public institutions (Table Three).

In summary, then, large debt burdens appear to be a problem particularly for those with very low salaries (less than $15,000) or high loan amounts (more than $10,000). For example, 41 percent of the former group and 30 percent of the latter had debt burdens of 15 percent or more, much greater proportions than found among those with higher incomes or lower levels of debt. Because students who attend private, not-for-profit institutions tend to borrow more than those who attend public institutions, the former were more likely to have debt burdens of 10 percent or more.

Other Indicators of Debt Burden

While the ratio of loan payments to monthly earnings is probably the most important indicator of debt burden, it is not the only one. Aspects of a borrower's financial circumstances other than earnings can also affect the financial burden of the payments. For example, a borrower who had a non-working spouse who also had student loan debt would probably find paying 9 percent of his or her monthly earnings in loan payments much more of a burden than would a borrower who had a working spouse with no loan debt.

Monthly Payments for Other Expenses

While complete details of the 1992-93 bachelor's degree recipients' financial situations are not available, data were collected on how much graduates were paying per month for some major expenses: mortgages, rent, auto loans, and other non-educational debt (credit cards, for example). The average for these was about $650 per month (Table 15).

As one might expect, graduates with higher monthly salaries had higher monthly expenditures for these items. In addition, as loan payments used up an increasing proportion of graduates' monthly salary, payments for these

expenses generally decreased. However, the total amount owed for undergraduate debt and monthly expenses did not appear to be related. Monthly expenses for the items listed above were similar for borrowers and non-borrowers and did not increase with the total owed. In other words, while higher present loan payments—as a percent of monthly income—may hamper current spending on other items, the existence of outstanding loans does not seem to. Those who had borrowed but no longer owed (who either repaid their loans by 1994 or had them canceled) had higher expenses than those who had never borrowed at all.

Spouses' Borrowing for Education

The burden of a graduate's loan payments may be compounded if the graduate has a spouse with outstanding loans as well, depending on the spouse's income. However, relatively few bachelor's degree recipients were in this position. About 9 percent of 1992-93 bachelor's degree recipients who owed money in 1994 had a spouse who also owed money for his or her education. The average amount owed by spouses with education debt was about $8,300, similar to the average $9,000 owed by the 1992-93 bachelor's degree recipients.[17]

Borrowing and Lifestyle Choices

Also of interest to policymakers is understanding how students' borrowing to finance their undergraduate education may later influence their lifestyle. Borrowing might affect the decision to live at home or on one's own and also might affect the ability to save money for purposes such as a house or further education.

Living Arrangements

About one-quarter (27 percent) of 1992-93 bachelor's degree recipients were living with parents or relatives in April 1994 (Table 16). The likelihood of doing so was related to age, salary, and debt burden. Younger and lower income graduates were more likely to be living with parents or relatives. One-third of those who were 24 years or younger when they received their bachelor's degree were living with parents or relatives in April 1994. One-third of those with salaries less than $20,000 were living with parents or relatives, a considerably greater proportion than among those making $25,000 or more. In addition, those with monthly education loan payments amounting to 15 percent or more

of their monthly salary were more likely than those with payments amounting to less than 5 percent of their monthly salary to be living with parents or relatives, 35 percent compared with 22 percent, respectively.

Table 16 also shows the living arrangements of graduates who were 24 years or younger when they received their bachelor's degree. Among those in this age group whose education loan payments amounted to 15 percent or more of their April 1994 salary, 40 percent were living with parents or relatives.

Saving

About three-quarters of all 1992-93 bachelor's degree recipients who were working full-time in April 1994 were saving money: 30 percent were saving to buy a home, 21 percent for further education, 24 percent for retirement, 13 percent to buy a vehicle, and 34 percent for a "rainy day" (Table 17). Those earning $35,000 or more were more likely to be saving than those earning less than $15,000.

Debt burden and the likelihood of saving were generally unrelated. Among bachelor's degree recipients making loan payments, between 71 and 77 percent of those working full-time were saving, regardless of the percentage of their monthly salary devoted to education loan payments. Those paying 15 percent or more of their salary for education loan payments were more likely than those paying less than 5 percent to be saving for further education (28 percent compared with 16 percent). The amount saved may have been related to debt burden, but B&B participants were not asked about the amounts they saved.

Summary And Conclusion

In 1994, approximately one year after they graduated, the vast majority (87 percent) of the 1992-93 bachelor's degree recipients were employed, even if they were continuing their education. Those working full-time had an average annualized salary of about $24,200 from their primary April 1994 job. Some undergraduate majors seem to lead to better paying jobs than others. Specifically, graduates who majored in business and management, engineering, mathematics, or science had considerably higher salaries than those who majored in humanities or social sciences. Some experience with unemployment in the first year after graduating was not uncommon: 29 percent had been unemployed and looking for work for at least one month. Although older undergraduates (30 years or older) as a group

were less likely than younger ones (24 years or younger) to ever be unemployed, they were more likely to have been unemployed for nine months or more.

About one-half (49 percent) of the 1992-93 bachelor's degree recipients had borrowed from some source (including relatives or friends as well as through student loan programs) to help finance their education. The average total amount borrowed from all sources was $10,200. Graduates of private, not-for-profit institutions were more likely to have borrowed and to have borrowed more, on average, than graduates of public institutions. The B&B data provide no evidence that graduates' career choices were related to borrowing if they were working. However, borrowers were less likely to enroll immediately in graduate school or other postsecondary education, even when other student and institutional characteristics were taken into account.

In 1994, 29 percent of all 1992-93 bachelor's degree recipients were required to make payments on their education loans. For those making payments, the average monthly payment was $136, or about 9 percent of their April 1994 monthly salary. The graduates with the greatest average debt burden (15 percent) were those with salaries less than $15,000.

As monthly debt burden increased, graduates reported spending less on other items, such as housing, auto loans, and other non-educational debt, but larger outstanding loans did not appear to limit spending on these items. Graduates whose debt burden exceeded 15 percent were more likely than those with lower debt burdens to be living with parents or relatives. Whether or not a graduate was saving did not seem to be related to debt burden, but whether or not it affected the amount saved is unknown.

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Endnotes

1. U.S. Department of Education, National Center for Education Statistics, 1993 Baccalaureate and Beyond Longitudinal Study First Follow-up (B&B:93/94), Data Analysis System.

2. The analysis reported here is based on a larger study conducted for the National Center for Education Statistics that described the early labor force experiences and debt burden of 1992-93 bachelor's degree recipients and 1989-90 beginning postsecondary students who had received a degree or left school by the end of 1992. See U.S. Department of Education, National Center for Education Statistics, *Early Labor Force Experiences and Debt Burden*, NCES 97-286, by Susan P. Choy and Sonya Geis (Washington, DC: Government Printing Office, 1997).

3. Laura Greene Knapp, *Borrowing for College in 1989-90* (Washington, DC: author, 1992), 1. The College Board, *Trends in Student Aid: 1986 to 1996* (Washington, DC: author, 1996).

4. U.S. Department of Education, Budget Services, table prepared for the FY 1998 President's Budget. Loan volumes refer to net commitments (loans actually dispersed) and exclude consolidated loans.

5. See, for example, Janet S. Hansen, *Student Loans: Are They Overburdening a Generation?* (New York: College Entrance Examination Board, 1987); W. Lee Hansen and Marilyn S. Rhodes, "Student Debt Crisis: Are Students Incurring Excessive Debt?" *Economics of Education Review* 7 (1), 1988, 101-112; and Keith Greiner, "How Much Student Loan Debt Is Too Much?" *Journal of Student Financial Aid* 26 (1), 1996, 7-16.

6. The primary job was defined as the job for which the most hours were worked. If the hours were the same for more than one job, the one with the highest salary was considered the primary job. Seventy-three percent of bachelor's degree recipients were employed full-time.

7. Among 1992-93 bachelor's degree recipients, men were more likely than women to be in business and management and in sales/service occupations, while women were much more likely than men to be teachers or hold administrative/clerical/support jobs. See U.S. Department of Education, National Center for Education Statistics, *Early Labor Force Experiences and Debt Burden*, 25.

8. U.S. Bureau of the Census, *Statistical Abstract of the United States 1996*. (Washington, DC: Government Printing Office, 1996) 413, 415. In 1989-90, 46 percent of undergraduates 24 years or older worked 40 hours or more per week while enrolled, compared with 23 percent of those less than 24 years old. See U.S. Department of Education, National Center for Education Statistics, *Profile of Older Undergraduates* [National Postsecondary Student Aid Study and Beginning Postsecondary Students Longitudinal Study], NCES 95-167, by Susan P. Choy and Mark K. Premo (Washington, DC: Government Printing Office 1995), 16.

9. U.S. Department of Education, National Center for Education Statistics, *A Descriptive Summary of 1992-93 Bachelor's Degree Recipients: 1 Year Later*, (Washington, DC: Government Printing Office, 1995), 22.

10. U.S. Department of Education, National Center for Education Statistics, *A Descriptive Summary of 1992-93 Bachelor's Degree Recipients: 1 Year Later*, 25.

11. Because repayment can be deferred as long as a borrower is enrolled in postsecondary education at least halftime, a slightly greater percentage (32 percent) of those not enrolled in Spring 1994 were required to make loan payments.

12. U.S. Department of Education, Office of Policy and Planning, *Debt Burden Facing College Graduates*, by Westat, Inc. (Washington, DC: Government Printing Office, 1992).

13. W. Lee Hansen and Marilyn S. Rhodes, "Student Debt Crisis: Are Students Incurring Excessive Debt?"

14. Keith Greiner, "How Much Student Loan Debt Is Too Much?"

15. Data on spouses' borrowing from U.S. Department of Education, National Center for Education Statistics, 1990 Beginning Postsecondary Students Longitudinal Study—Second Follow-up (BPS:90/94), Data Analysis System.

Table 1

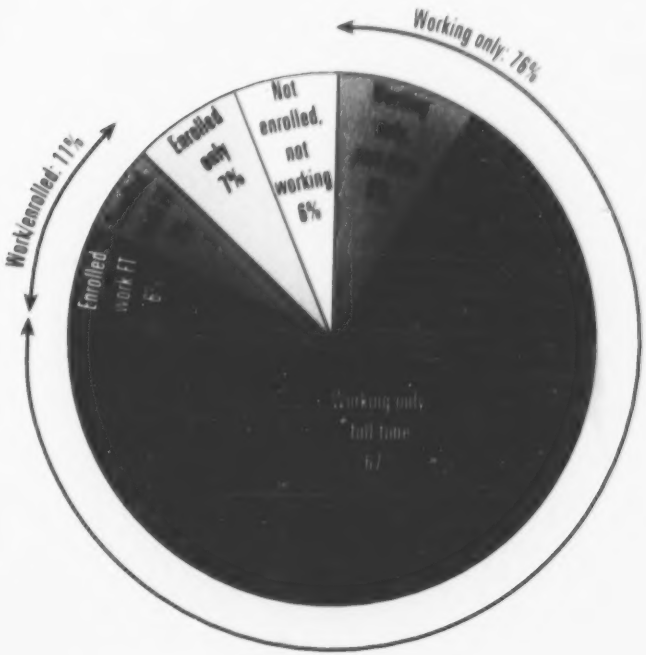
Percent Who Borrowed and Percentage Distribution of 4th- and 5th-Year Undergraduates Participating in Federal Title IV Student Loan Programs According to Total Amount Borrowed and Average Amount Borrowed

	1992-93						
	Percent who borrowed	Less than $5,000	$5,000-9,999	$10,000-14,999	$15,000-19,999	$20,000 or more	Average
Total	39.0	35.1	32.3	20.4	8.5	3.6	$8,228
Income and dependency level							
Dependent	34.0	36.5	31.1	23.6	7.7	1.1	$7,695
Less than $29,999	64.0	31.5	33.3	24.7	9.2	1.2	$8,255
$30,000-59,999	38.0	36.5	30.8	23.6	8.0	1.1	$7,641
$60,000 or more	18.0	44.3	28.0	22.1	4.7	0.9	$6,956
Independent, any income	46.0	34.0	33.0	18.3	9.2	5.6	$8,671
Institution level and control							
Public 4-year	37.0	39.1	33.5	17.5	7.2	2.7	$7,484
Private, not-for-profit 4-year	44.0	25.2	29.5	26.8	12.3	6.2	$9,819
	1995-96						
Total	52.0	18.3	25.9	24.6	17.6	13.6	$11,908
Income and dependency level							
Dependent	47.0	16.0	26.5	28.6	20.4	8.6	$11,285
Less than $29,999	61.0	14.4	25.5	27.7	20.6	11.8	$11,927
$30,000-59,999	57.0	16.7	25.1	29.2	20.3	8.6	$11,231
$60,000 or more	32.0	16.7	29.3	28.8	20.2	4.9	$10,607
Independent, any income	56.0	20.4	25.5	21.1	15.1	18.0	$12,454
Institution level and control							
Public 4-year	50.0	20.4	28.1	24.3	15.2	12.0	$11,233
Private, not-for-profit 4-year	55.0	13.3	21.5	25.5	23.2	16.5	$13,322

Source: U.S. Department of Education, National Center for Education Statistics, 1993 Baccalaureate and Beyond Longitudinal Study First Followup (B&B 93/94), Data Analysis System, and U.S. Department of Education, National Center for Education Statistics, 1996 National Postsecondary Student Aid Study (NPSAS:96).

Figure 1

Work and enrollment status of 1992-93 bachelor's degree recipients, April 1994



Total working = 87%	Total enrolled = 18%

Source: U.S. Department of Education, National Center for Education Statistics, 1993 Baccalaureate and Beyond Longitudinal Study First Followup (B&B:93/94), Data Analysis System

Table 2

Percentage of 1992-93 Bachelor's Degree Recipients Who Were Employed and Enrolled in April 1994

	Total*		Enrollment and employment status			
	Employed	Enrolled	Employed and not enrolled	Employed and enrolled	Enrolled and not employed	Neither employed nor enrolled
Total	87.0	17.9	75.8	11.2	6.7	6.3
Borrowing for undergraduate education						
Did not borrow	85.8	19.7	74.2	11.5	8.2	6.1
Borrowed	88.4	16.1	77.4	10.9	5.2	6.4
Degree-granting institution						
Public 4-year	87.6	17.8	76.1	11.5	6.2	6.2
Private, not-for-profit 4-year	85.8	18.4	75.1	10.8	7.7	6.5
Other	86.3	14.5	77.6	8.7	5.8	7.9
Baccalaureate degree major						
Business and management	92.4	9.9	85.3	7.1	2.7	4.9
Engineering, math, or science	79.6	26.3	66.1	13.5	12.7	7.7
Humanities or social science	84.4	21.0	71.4	13.0	8.0	7.6
Other	88.8	16.8	77.4	11.4	5.5	5.8

*Sums to more than 100 percent because some are both employed and enrolled.

Source: U.S. Department of Education, National Center for Education Statistics, 1993 Baccalaureate and Beyond Longitudinal Study First Followup (B&B 93/94), Data Analysis System.

Table 3

Percentage Distribution of 1992-93 Bachelor's Degree Recipients Who Were Employed Full-Time in April 1994 According to Annualized Salary from Primary April 1994 Job and Average Annualized Salary

	Less than $10,000	$10,000 to 14,999	$15,000 to 19,999	$20,000 to 24,999	$25,000 to 34,999	$35,000 to 49,999	$50,000 or more	Average
Total	4.6	13.9	21.1	22.7	24.5	9.9	3.3	$24,195
Gender								
Male	3.7	10.7	16.9	20.4	30.2	13.2	4.9	$26,440
Female	5.3	16.7	24.7	24.6	19.7	7.1	1.9	$22,286
Age received bachelor's degree								
24 or younger	5.5	15.9	23.8	24.1	23.1	6.2	1.5	$22,247
25-29	3.3	12.6	18.6	20.7	27.2	14.5	3.2	$25,435
30 or older	1.6	6.4	11.2	17.3	28.9	23.1	11.5	$31,994
Borrowing for undergraduate education								
Did not borrow	4.5	13.8	19.8	23.0	24.6	10.4	4.0	$24,731
Borrowed	4.7	14.0	22.5	22.3	24.5	9.5	2.5	$23,660
Degree-granting institution								
Public 4-year	4.6	14.4	21.5	23.1	25.5	8.5	2.5	$23,525
Private, not-for-profit 4-year	4.4	13.8	18.9	22.2	23.1	13.0	4.6	$25,625
Other	6.3	5.9	34.0	19.2	18.2	10.3	6.0	$24,307
Baccalaureate degree major								
Business and management	2.1	9.8	17.7	22.5	31.2	11.8	5.0	$27,069
Engineering, math, or science	3.0	9.4	13.2	17.8	35.5	19.0	2.2	$27,232
Humanities or social science	7.2	17.8	24.0	26.3	17.5	5.3	2.0	$21,324
Other	5.3	16.2	24.9	22.5	20.0	7.8	3.3	$22,812

Source: U.S. Department of Education, National Center for Education Statistics, 1993 Baccalaureate and Beyond Longitudinal Study First Followup (B&B 93/94), Data Analysis System.

Table 4

Percentage Distribution of 1992-93 Bachelor's Degree Recipients According to Number of Months Unemployed Since Graduating, Percentage with Any Unemployment Spells Since Graduating, and Percentage Unemployed in April 1994

	Number of months unemployed					Any Unemployment Spells	Unemployed April 1994
	None	1-2	3-4	5-9	More than 9		
Total	71.3	8.2	9.4	6.8	4.3	28.7	4.5
Age received bachelor's degree							
24 or younger	69.8	9.4	10.3	6.9	3.7	30.3	4.0
25-29	71.8	6.7	9.0	7.6	5.0	28.2	5.6
30 or older	77.0	4.4	6.0	5.9	6.8	23.0	6.0
Baccalaureate degree major							
Business and management	72.8	8.2	6.9	7.5	4.5	27.2	3.6
Engineering, math, or science	70.8	7.2	8.7	7.6	5.7	29.2	6.1
Humanities or social science	70.1	8.9	9.7	7.1	4.3	29.9	4.9
Other	71.5	8.2	11.0	5.8	3.6	28.5	4.1
Degree-granting institution							
Public 4-year	70.6	8.6	9.5	6.8	4.5	29.4	4.8
Private, not-for-profit 4-year	72.2	7.7	9.6	6.6	3.9	27.8	3.9
Other	77.8	4.7	5.4	6.9	5.2	22.2	4.6

Source: U.S. Department of Education, National Center for Education Statistics, 1993 Baccalaureate and Beyond Longitudinal Study First Followup (B&B 93/94) Data Analysis System.

Table 5

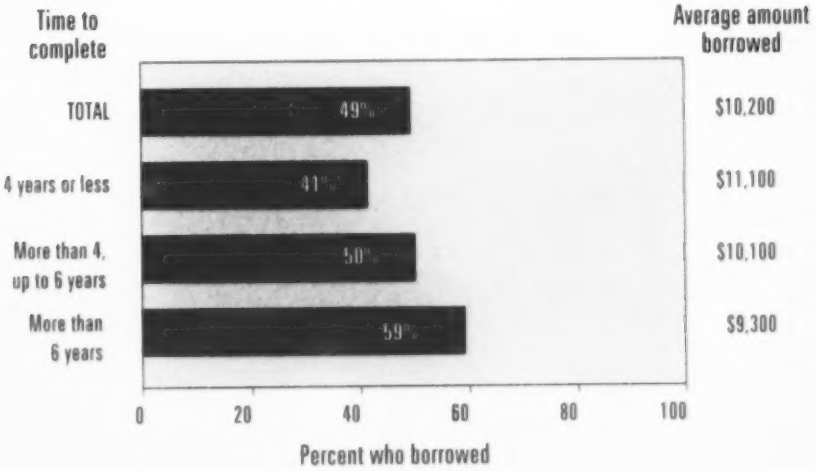
Percentage of 1992-93 Bachelor's Degree Recipients Who Borrowed for Undergraduate Education, Average Amounts Borrowed, and Percentage Distribution of Those Who Borrowed by Amount Borrowed

			Amount borrowed				
	Percent who borrowed	Average amount borrowed	Less than $5,000	$5,000 to 9,999	$10,000 to 14,999	$15,000 to 19,999	$20,000 or more
Total	49.3	$10,167	28.7	28.4	20.5	10.9	11.5
Income and dependency level							
Less than $30,000	67.3	$10,735	28.1	23.1	23.2	14.8	10.8
$30,000-59,999	47.8	$9,620	30.7	27.2	21.6	10.9	9.6
$60,000 or more	28.7	$11,894	29.3	26.0	16.8	10.3	17.6
Independent, any income	59.6	$9,656	27.5	31.5	20.4	10.0	10.6
Degree-granting institution							
Public 4-year	46.4	$8,696	33.7	30.2	19.3	9.4	7.5
Private, not-for-profit 4-year	54.1	$12,760	20.4	24.3	23.0	13.3	19.0
Other	61.5	$10,261	25.6	36.5	17.7	13.0	9.3
First institution							
Public 4-year	45.9	$9,023	32.4	31.5	18.1	9.4	8.6
Private, not-for-profit 4-year	53.2	$12,482	21.1	23.5	23.1	15.0	17.3
Public 2-year	52.8	$9,227	30.0	30.3	23.0	9.0	7.7
Other	58.1	$10,528	23.6	26.5	25.2	12.9	11.8

Source: U.S. Department of Education, National Center for Education Statistics, 1993 Baccalaureate and Beyond Longitudinal Study First Followup (B&B 93/94), Data Analysis System.

Figure 2

Percentage of 1992-93 Bachelor's Degree Recipients Who Borrowed for Their Undergraduate Education and Average Amount Borrowed



Source: U.S. Department of Education, National Center for Education Statistics, 1993 Baccalaureate and Beyond Longitudinal Study First Followup (B&B 93/94): Data Analysis System.

Table 6

Percentage Distribution of 1992-93 Bachelor's Degree Recipients Who Borrowed According to the Amount Still Owed for Their Undergraduate Education and Average Amount Owed by Those Who Still Owed: 1994

	Amount of undergraduate debt still owed						
	None	Less than $5,000	$5,000 to 9,999	$10,000 to 14,999	$15,000 to 19,999	$20,000 or more	Average amount owed
Total	16.5	27.7	25.5	16.2	7.9	6.3	$9,068
Time from postsecondary entry to bachelor's degree							
4 years or less	13.7	25.4	26.4	19.6	8.0	7.0	$9,633
More than 4, up to 6 years	14.0	31.2	25.4	15.4	8.5	5.5	$8,552
More than 6 years	22.0	25.5	26.1	13.4	6.4	6.7	$9,144
Degree-granting institution							
Public 4-year	18.0	32.7	26.1	13.3	6.2	3.8	$7,777
Private, not-for-profit 4-year	14.1	19.0	23.3	21.7	10.7	11.2	$11,338
Other	13.7	25.1	35.7	11.6	9.7	4.2	$8,753

Source: U.S. Department of Education, National Center for Education Statistics, 1993 Baccalaureate and Beyond Longitudinal Study, First Followup (B&B:93/94), Data Analysis System

Table 7

Percentage of 1992-93 Bachelor's Degree Recipients Who Reported That Various Factors Were Important to Them in Determining the Type of Work They Planned to Do in the Future: 1994

	Good starting income	Good income potential	Job security	Interesting work	Intellectual work	Interaction with others
Total	34.6	45.3	36.3	42.4	44.5	32.7
Borrowing for undergraduate education						
Did not borrow	36.0	45.5	36.6	44.0	45.8	33.7
Borrowed	33.0	44.8	35.0	40.1	42.9	31.5
Less than $5,000	32.5	41.6	33.6	36.6	40.1	30.3
$5,000-9,999	32.7	46.3	35.7	41.8	42.1	30.3
$10,000-14,999	31.9	44.8	34.6	41.1	47.1	31.5
$15,000-19,999	36.6	49.1	36.5	42.0	41.4	35.1
$20,000 or more	34.5	44.9	36.0	41.4	46.0	33.8

Source: U.S. Department of Education. National Center for Education Statistics. 1993 Baccalaureate and Beyond Longitudinal Study First Followup (B&B 93/94). Data Analysis System.

Table 8

Percentage Distribution of 1992-93 Bachelor's Degree Recipients by Relationship Between April 1994 Job and Degree

	Closely related	Somewhat related	Not at all related
Total	54.7	20.3	25.0
Borrowing for undergraduate education			
Did not borrow	53.6	20.3	26.1
Borrowed	56.1	20.3	23.5
Less than $5,000	57.0	21.7	21.4
$5,000-9,999	55.2	21.7	23.2
$10,000-14,999	57.3	17.9	24.8
$15,000-19,999	56.2	19.0	24.9
$20,000 or more	54.5	19.1	26.3

Source: U.S. Department of Education, National Center for Education Statistics, 1993 Baccalaureate and Beyond Longitudinal Study First Followup (B&B 93/94), Data Analysis System.

Table 9

Of 1992-93 Bachelor's Degree Recipients Whose April 1994 Job Was Not at All Related to Their Degree, Percentage Who Gave Various Reasons for Taking That Job

	Only job could find	Pay better	Held job before graduation	Curious about type of work	Better opportunities for advancement	Opportunity to help people/be useful to society	Wanted manual occupation	Other
Total	22.0	25.2	5.5	5.4	5.3	2.0	0.6	34.2
Borrowing for undergraduate education								
Did not borrow	21.7	24.8	5.7	6.4	5.3	2.1	0.8	33.4
Borrowed	23.2	25.6	5.5	4.1	5.4	1.9	0.4	34.0

Source: U.S. Department of Education, National Center for Education Statistics, 1993 Baccalaureate and Beyond Longitudinal Study First Followup (B&B 93/94), Data Analysis System.

Table 10

Percentage of 1992-93 Bachelor's Degree Recipients Who Applied to Graduate or Professional School, the Percentage Accepted, and the Percentage Who Considered Applying: 1994

	Applied to graduate/ professional school	Accepted if applied	Considered graduate/ professional education among those who did not apply
Total	28.7	88.0	73.0
Amount borrowed			
Did not borrow	30.5	88.7	71.1
Borrowed	27.2	87.3	75.2
Less than $5,000	27.8	87.3	76.8
$5,000-9,999	28.5	85.5	74.6
$10,000-14,999	24.8	89.7	74.5
$15,000-19,999	25.7	84.8	75.6
$20,000 or more	29.0	90.4	74.0
GPA (4.0 scale)			
Less than 3.0	20.2	85.5	71.0
3.0 or above	35.2	89.4	75.1

Source: U.S. Department of Education, National Center for Education Statistics, 1993 Baccalaureate and Beyond Longitudinal Study First Followup (B&B 93/94): Data Analysis System.

Table 11

Percentage of 1992-93 Bachelor's Degree Recipients Who Had Considered Applying to Graduate School but Did Not Apply Who Gave Various Reasons as the Primary Reason for Not Applying: 1994

	Too much undergraduate debt	Too much other debt	Not enough financial aid	Cost-related*	Personal	Work-related	Undecided what to study	Other academic	Other
Total	5.8	4.2	3.1	10.7	21.1	33.3	3.4	1.5	16.9
Amount borrowed									
Did not borrow	1.5	2.8	2.8	9.5	22.8	37.4	4.0	1.9	17.4
Borrowed	10.1	5.6	3.4	11.7	19.2	29.9	2.6	1.2	16.4
Less than $5,000	5.1	5.2	3.7	10.4	19.0	33.3	2.6	1.2	19.6
$5,000-9,999	8.3	5.1	4.1	13.3	20.5	27.9	2.7	1.8	16.4
$10,000-14,999	11.7	7.8	2.3	10.2	21.5	28.8	2.6	1.4	13.7
$15,000-19,999	14.8	4.0	3.6	11.6	14.9	32.1	2.5	0.4	16.2
$20,000 or more	19.8	5.4	2.6	14.0	16.4	26.0	2.4	0.2	13.2
GPA (4.0 scale)									
Less than 3.0	6.3	5.0	3.0	12.2	20.3	33.3	2.9	2.0	15.0
3.0 or above	5.3	3.5	3.3	9.2	21.5	33.6	3.8	1.2	18.6

*Cost too much; not worth it; cannot afford it.

Source: U.S. Department of Education, National Center for Education Statistics, 1993 Baccalaureate and Beyond Longitudinal Study First Followup (B&B 93/94), Data Analysis System.

Table 12

Percentage of 1992–93 Bachelor's Degree Recipients Who Were Enrolled for Further Education in April 1994, and the Adjusted Percentage After Taking into Account the Covariation of the Variables Listed in the Table[1]

	Unadjusted percentage[2]	Adjusted percentage[3]	WLS coefficient[4]	Standard error[5]
Total	17.9	17.9	36.6	0.7
Gender				
Male	18.3	19.0	(†)	(†)
Female	17.6	16.9*	-2.1	0.5
Race–ethnicity				
American Indian/Alaskan Native	14.7	18.6	1.2	5.4
Asian/Pacific Islander	20.6	19.7	2.3	1.7
Black, non-Hispanic	16.7	20.3*	3.0	1.3
Hispanic	19.9	21.5*	4.1	1.3
White, non-Hispanic	17.7	17.4	(†)	(†)
Age received bachelor's degree				
24 or younger	19.2	19.1	(†)	(†)
25–29	10.6*	11.9*	-7.1	0.7
30 or older	17.4	17.1*	-2.0	0.9
Borrowing for undergraduate education				
Did not borrow	19.7	19.4	(†)	(†)
Less than $5,000	16.6	16.3*	-3.1	0.6
$5,000 or more	15.9*	16.4*	-3.0	0.5
Degree-granting institution				
Public 4-year	17.8	18.1	(†)	(†)
Private, not-for-profit 4-year	18.4	18.2	0.1	0.9
Other	14.5	1.4*	-16.7	5.0
Baccalaureate degree major				
Business and management	9.9*	10.2*	-19.0	1.0
Education	19.2*	18.8*	-10.4	0.8
Engineering	20.9*	21.0*	-8.3	1.4
Math or science	29.6	29.3	(†)	(†)
Health or social services	16.4*	16.7*	-12.5	1.2
Humanities or social science	21.0*	20.5*	-8.8	0.9
Other	15.0*	15.6*	-13.7	0.9
GPA (4.0 scale)				
Less than 3.0	13.2*	13.1*	-8.6	0.5
3.0 or above	21.6	21.7	(†)	(†)

Notes:

* $p \leq .05$

† Not applicable for reference group.

1 The group in italics is the reference group for comparison.

2 Estimates from the B&B: 93/94 Data Analysis System.

3 Percentages adjusted for differences associated with other variables in the table.

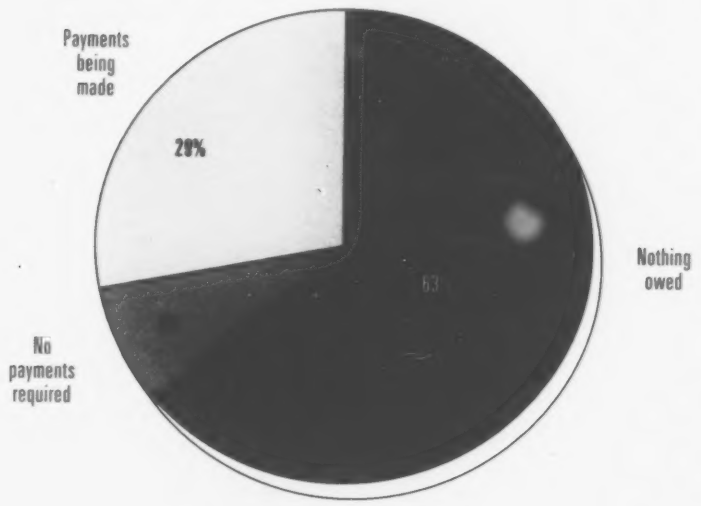
4 Weighted least squares (WLS) coefficient. The coefficients presented here were multiplied by 100 in order to represent the proportional difference between each category and its base comparison group.

5 Standard error of WLS coefficient, adjusted for design effect.

Source: U.S. Department of Education, National Center for Education Statistics, 1993 Baccalaureate and Beyond Longitudinal Study First Follow-up (B&B: 93/94): Data Analysis System.

Figure 3

Percentage Distribution of 1992-93 Bachelor's Degree Recipients According to Repayment Status in 1994



Source: U.S. Department of Education, National Center for Education Statistics, 1993 Baccalaureate and Beyond Longitudinal Study First Followup (B&B 93/94), Data Analysis System

Table 13

Percentage Distribution of 1992-93 Bachelor's Degree Recipients in Repayment According to Monthly Education Loan Payments and Average Amount of Payment: 1994

	Monthly education loan payments						
	Less than $50	$50 to 99	$100 to 149	$150 to 199	$200 to 249	$250 or more	Average payment
Total	4.8	34.3	26.3	14.2	9.7	10.8	$136
Total undergraduate debt still owed in 1994							
Less than $5,000	9.9	61.9	17.9	4.5	1.7	4.1	$83
$5,000-9,999	2.3	30.1	41.7	14.8	6.4	4.7	$127
$10,000 or more	1.7	8.4	20.8	24.1	20.9	24.1	$201
Degree-granting institution							
Public 4-year	6.5	38.9	25.7	13.5	7.7	7.8	$121
Private, not-for-profit 4-year	2.4	26.2	26.0	15.9	12.9	16.6	$163

Source: U.S. Department of Education, National Center for Education Statistics, 1993 Baccalaureate and Beyond Longitudinal Study First Followup (B&B 93/94): Data Analysis System

Table 14

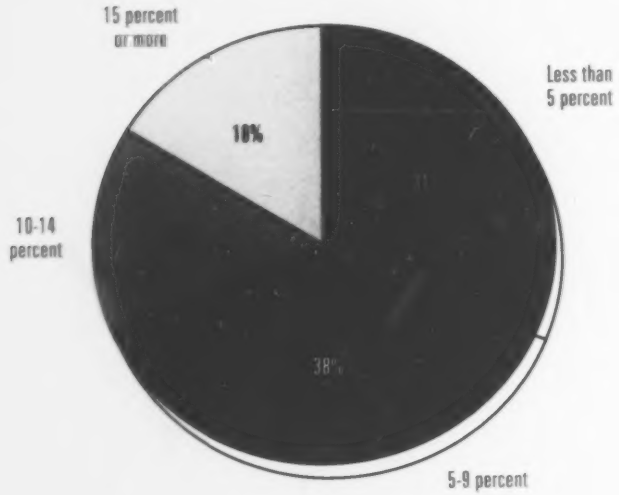
Percentage Distribution of 1992-93 Bachelor's Degree Recipients Making Monthly Education Loan Payments According to Their Monthly Payment as a Percent of Their April 1994 Salary, and Average Percent: 1994

	Less than 5 percent	5-9 percent	10-14 percent	15 percent or more	Average
Total	30.9	36.0	15.4	15.7	8.8
Annual salary at April 1994 job					
Less than $15,000	7.8	29.3	21.5	41.4	14.6
$15,000-19,999	25.9	44.0	18.0	12.2	8.5
$20,000-24,999	32.8	42.5	15.9	8.9	7.4
$25,000-34,999	43.2	42.2	9.6	5.0	6.3
$35,000 or more	64.2	27.1	6.9	1.8	4.6
Total undergraduate debt still owed in 1994					
Less than $5,000	58.8	28.3	7.2	5.7	5.5
$5,000-9,999	22.1	49.8	15.7	12.4	8.6
$10,000 or more	8.8	37.8	23.8	29.6	17.6
Degree-granting institution					
Public 4-year	35.9	38.3	13.1	12.7	7.9
Private, not-for-profit 4-year	23.5	34.2	19.8	22.5	10.4
Other	20.9	63.0	10.7	5.5	8.1

Source: U.S. Department of Education, National Center for Education Statistics, 1993 Baccalaureate and Beyond Longitudinal Study First Followup (B&B:93/94), Data Analysis System.

Figure 4

Percentage Distribution of 1992-93 Bachelor's Degree Recipients Making Education Loan Payments According to Their Monthly Payment as a Percent of Their April 1994 Income



Source: U.S. Department of Education, National Center for Education Statistics, 1993 Baccalaureate and Beyond Longitudinal Study First Followup (B&B 93/94), Data Analysis System

Table 15

Percentage Distribution of 1992-93 Bachelor's Degree Recipients According to Monthly Payments for Selected Noneducational Expenses (Mortgage, Rent, Auto Loans, and Other Debt), and Average Amount Paid: 1994

	Noneducational expenses					
	None	Less than $250	$250 to 499	$500 to 999	$1,000 or more	Average
Total	8.5	10.5	27.1	38.0	15.9	$653
Annual salary at April 1994 job						
Less than $15,000	16.4	18.4	33.3	26.3	5.7	$476
$15,000-19,999	7.8	12.3	30.4	38.9	10.5	$586
$20,000-24,999	4.8	7.3	27.9	45.2	14.8	$663
$25,000-34,999	4.2	5.3	23.2	43.9	23.4	$749
$35,000 or more	4.7	3.0	10.7	41.9	39.7	$965
Borrowing for undergraduate education						
Did not borrow	11.0	10.4	27.2	35.9	15.4	$645
Borrowed	5.6	10.8	27.0	40.2	16.5	$660
Total undergraduate debt still owed in 1994[1]						
None	7.0	7.8	25.0	37.1	23.1	$732
Less than $5,000	5.3	10.2	26.4	43.1	15.0	$644
$5,000-9,999	6.2	11.6	26.4	38.4	17.4	$674
$10,000 or more	4.6	12.1	29.7	40.2	13.5	$623
Monthly education loan payment as percent of monthly income[2]						
Less than 5 percent	2.3	6.1	20.5	46.0	25.2	$766
5-9 percent	2.3	9.0	27.6	45.1	16.1	$685
10-14 percent	6.5	16.2	28.1	38.8	10.4	$570
15 percent or more	11.0	16.8	33.1	32.0	7.2	$517

1 Includes only those who borrowed

2 Includes only those making payments

Source: U.S. Department of Education, National Center for Education Statistics, 1993 Baccalaureate and Beyond Longitudinal Study First Followup (B&B 93/94), Data Analysis System

Table 16

Percentage Distribution of 1992-93 Bachelor's Degree Recipients According to Where They Were Living in April 1994

	All students			24 years or less		
	Own house or apartment	With parents or relatives	Other	Own house or apartment	With parents or relatives	Other
Total	69.9	26.6	3.5	63.3	32.9	3.8
Annual salary at April 1994 job						
Less than $15,000	60.4	33.4	6.3	56.4	36.6	7.0
$15,000-19,999	64.4	32.8	2.9	58.7	38.7	2.6
$20,000-24,999	71.0	26.3	2.7	65.8	31.6	2.6
$25,000-34,999	77.6	20.2	2.2	71.5	26.6	1.9
$35,000 or more	87.5	11.2	1.3	79.0	19.1	1.9
Total undergraduate debt still owed in 1994[1]						
None	76.8	20.3	2.9	67.0	29.8	3.2
Less than $5,000	69.3	26.8	3.9	62.7	33.1	4.1
$5,000-9,999	67.4	28.9	3.7	58.8	37.2	4.0
$10,000 or more	72.3	23.1	4.6	65.5	29.4	5.1
Monthly education loan payment as percent of monthly income[2]						
Less than 5 percent	76.0	22.3	1.6	68.8	29.5	1.8
5-9 percent	71.4	26.0	2.6	64.8	33.1	2.1
10-14 percent	68.9	29.0	2.1	60.6	36.7	2.7
15 percent or more	57.4	34.7	7.9	50.9	40.3	8.9

1 Includes only those who borrowed

2 Includes only those making payments

Source: U.S. Department of Education, National Center for Education Statistics, 1993 Baccalaureate and Beyond Longitudinal Study First Followup (B&B:93/94), Data Analysis System

Table 17

Percentage of 1992-93 Bachelor's Degree Recipients Working Full Time in April 1994 Who Were Saving Money for Various Reasons: 1994

	Any reason	Buy a home	Further education	Retirement	Buy a vehicle	Rainy day
Total	75.3	29.5	20.8	24.2	13.0	34.1
Annual salary at April 1994 job						
Less than $15,000	58.6	21.0	25.3	9.9	14.1	37.4
$15,000-19,999	74.6	23.3	26.9	14.6	16.7	33.3
$20,000-24,999	72.6	31.6	19.4	21.6	13.3	37.0
$25,000-34,999	77.7	38.5	18.2	32.1	9.8	34.1
$35,000 or more	86.5	29.7	13.7	43.9	11.5	33.1
Borrowing for undergraduate education						
Did not borrow	77.2	30.0	21.7	25.4	13.3	34.9
Borrowed	73.5	29.0	19.9	23.1	12.5	33.5
Total undergraduate debt still owed in 1994[1]						
None	79.1	32.5	17.0	32.1	13.1	32.7
Less than $5,000	74.4	30.5	21.2	23.6	13.5	34.2
$5,000-9,999	72.8	29.3	20.0	21.3	11.0	31.7
$10,000 or more	69.9	25.7	20.9	19.1	12.4	32.9
Monthly education loan payment as percent of monthly income[2]						
Less than 5 percent	76.7	31.2	16.0	26.5	10.7	34.9
5-9 percent	74.3	30.6	21.7	21.8	11.5	31.1
10-14 percent	71.1	25.3	19.4	16.5	16.1	32.2
15 percent or more	70.9	24.1	27.9	17.0	11.5	31.8

1 Includes only those who borrowed

2 Includes only those making payments

Source: U.S. Department of Education, National Center for Education Statistics, 1993 Baccalaureate and Beyond Longitudinal Study First Followup (B&B:93/94), Data Analysis System

Life After Debt: Summary Results of the National Student Loan Survey

Sandra Baum / Skidmore College
Diane Saunders / Nellie Mae

The extent to which the need to borrow may effectively reduce access to higher education is arguably the most serious potential impact of the increasing reliance on education loans, but the effect of debt on those who do choose to borrow is also of considerable concern. The 1997 National Student Loan Survey (NASLS) was designed to collect data on the experiences of students currently repaying their loans. Information on the perceptions of the borrowers about the effect of the loans on their educational opportunities and their later options, as well as on the actual lifestyle patterns of borrowers, is included. While the data cannot effectively address the question of access, since only those who actually borrowed are included, they do allow comparisons of the attitudes and behaviors of those who borrowed only minimally and of those who are more heavily in debt.

NASLS was conducted by Nellie Mae, a non-profit student loan originator and secondary market for federal and private education loans. The results discussed here are based on the 1,098 usable responses of a survey sent to 2,500 borrowers whose loans are owned by Nellie Mae and serviced at USA Group Loan Services. The population is not nationally representative, as it is heavily concentrated in Massachusetts, New York, and California. All of those

surveyed began repayment between 1993 and 1996 and completed the survey during the spring and summer of 1997.

While the borrower base has broadened geographically since similar surveys were conducted in 1987 and 1991 (Baum and Schwartz, 1988; Pedalino et al, 1991), the demographics and the breakdown between undergraduate and graduate borrowers remain similar enough for some longitudinal comparisons to be made. During the period of time most of the respondents were in school, the Federal Unsubsidized Stafford Loan program was created in 1992, allowing students previously ineligible, due to family income, to obtain loans. Due to this broadening of access to federal student loans, borrowing increased by 42 percent between 1992-93 and 1993-94 (College Board, 1997). The full effect of this increase in borrowing is not reflected in these data.

Table One reports basic demographic data for the sample, which is 83 percent white, the same percentage as in a national study of recent college graduates (TERI, 1997). A quarter are first-generation college students.

Debt Levels

The mean (average) total debt level of $18,800 in the NASLS survey includes borrowing for both graduate and undergraduate education. While the mean total debt level is not representative of the typical borrower—the median is $13,000—it can be compared to the $8,200 mean level in a similar survey conducted six years earlier (Pedalino et al, 1991), with almost the exact ratio of graduate to undergraduate borrowers, approximately 35 percent and 65 percent, respectively.

The distributions of debt, monthly payments as a percentage of current monthly earnings, and total debt as a proportion of current annual income are shown in Table Two. Mean undergraduate debt is $11,400 and the median is $9,500. Debt levels vary significantly by type of school attended, with four-year private students borrowing more than other undergraduates (mean = $17,600) and with the debt for professional school students far exceeding the borrowing of other students (mean = $48,500).

Mean monthly payment for all borrowers is $198. For those who borrowed only for undergraduate years, it is $161. The median monthly payment levels are $150 and $134 for graduate and undergraduate students, respectively. There is considerable variance in the payment levels for student loans. Among those

who borrowed for graduate school, 25 percent have payments lower than $102 per month, while another 25 percent have payments exceeding $335. The top quartile for undergraduate borrowers is $200.

Evaluating the affordability of debt payments requires, of course, comparing them to incomes. The mean ratio of monthly education loan payment to current income among respondents is 12 percent and the median is 8 percent. A third of the respondents have monthly payments that require less than 5 percent of their incomes and another 30 percent have ratios between 5 percent and 10 percent.

By most standards, these two-thirds are not overburdened by their debt. However, the other third who use more than 10 percent of their monthly incomes—and the 13 percent of borrowers who have greater than a 20 percent debt to income ratio—likely face more difficulty.

Differences in the distribution of payment/income ratios across racial groups and by gender are not significant, but by school type they are. Those who attended graduate school devote higher proportions of their incomes to student loan payments, as do almost 40 percent of four-year private school borrowers. Only 16 percent of those who attended graduate school—compared to 28 percent of those who did not do graduate work—have monthly payments of less than 5 percent of their incomes. Thirty-six percent of the graduate students, compared to 11 percent of undergraduates, have monthly payments exceeding 20 percent of their incomes.

Attitudes Towards Debt

Questions designed to gain insight into how borrowers perceive their repayment responsibilities provide clear evidence that the perception of burden has grown over time, as indicated in Table Three. Responses to the question of how burdensome student loan payments are were, not surprisingly, correlated with monthly payment to income ratios. When this ratio increases from 5 percent or less to 5.1 to 10 percent, the percentage describing their burden as heavy increases from 28 percent to 45 percent. Seventy-seven percent of those with monthly payments exceeding 15 percent of monthly income feel very burdened by their loan payments.

Respondents reported that they (together with their spouses) have combined median monthly non-education debt payments of about $700—significantly

higher than student loan payments. Responses to the question of how burdened they feel by these loans, which could include mortgages, car loans, credit card debt, etc., were almost identical to the student loan responses. In other words, student loans are often a relatively small part of the debt burden faced by many of these recent graduates, and they do not appear to differentiate between the impact of the two forms of debt on their lifestyles.

The majority of respondents in all three Nellie Mae student loan surveys have expressed the view that loans played a critical role in allowing them to continue their educations after high school. But, as indicated in Table Four, the response has become stronger over time.

As Table Five shows, only 10 percent said that the benefits are not worth the hardship of repayment. Responses to this question are less correlated with monthly payment/income ratios than might be expected, but those without degrees or with only certificates or associate's degrees were less likely than others to say the loans were worth it.

Debt And Lifestyle Choices

One of the concerns commonly expressed about student debt financing is that it will constrain the options of recent graduates to an unacceptable extent. The NASLS survey asked both how students perceive the constraints imposed by their debt and what decisions they have actually made. There appears to be a considerable gap between perception and behavior in some cases.

With regard to the most important lifestyle question, only 17 percent said they had changed their career plans and 46 percent strongly disagreed with this suggestion. African American borrowers were more likely than others to respond positively to this question, as were those who borrowed at higher levels. Twenty-two percent of those with total debt exceeding $13,000 said they had changed their career plans, compared to 12 percent of those with lower debts.

The small proportion of respondents who say they changed their career plans because of debt contrasts sharply with other student perceptions about the importance of loans in their decision-making processes. Respondents were much more likely now than six years ago to report that their student debt had interfered with major life choices. Forty percent said that their debt had caused them to delay buying a home, compared to 25 percent in 1991. Thirty-one percent said they had delayed buying a car, up from 16 percent in 1991. The

proportion saying their debt had caused them to postpone having children went from 12 percent in 1991 to 22 percent in 1997. The empirical evidence suggests, however, that these perceptions are not related to student loan debt or income levels.

For example, neither education debt levels nor monthly payment amounts reduce the probability that recent graduates own homes. Living with a spouse or partner, higher incomes, having children, and being older are the factors which make owning a home more likely. Neither debt level nor monthly payment level have a measurable effect on car ownership, but the ratio of monthly payment to monthly income does significantly reduce the probability of owning a car. However, among car owners only ratios exceeding 20 percent of income significantly reduce the probability of debt financing. Debt levels are not a significant determinant of the probability of borrowers being married or having children. In sum, there is some indication that the purchase of major consumer durables is affected by debt to income ratios, but no evidence of major life decisions being significantly altered for the majority of respondents because of borrowing for education.

High-Risk Groups

Although the data indicate that on average, current levels of student debt are manageable, the variance in debt levels suggests that there may be some groups of students for whom repayment is a significant hardship. Borrowers from low-income families, black and Hispanic borrowers, students at for-profit vocational schools, and those who do not complete their degree or certificate programs are frequently the subject of concern. The NASLS data suggest that graduate students in business, law, and medicine have very high debt levels, so they also might be considered a high-risk group.

Low-Income Borrowers

The 37 percent of respondents who had Pell grants accumulated an average of $12,400 in undergraduate debt, compared to $10,900 for non-Pell recipients. However, because they were less likely to continue with graduate study, total educational debt for Pell recipients averages $17,900, compared to $19,300 for non-recipients. As indicated in Table Seven, Pell recipients were only slightly more likely than others to say they feel burdened by repaying their loans, but

significantly more likely than others to believe loans had a major effect on their access to higher education. While it is possible that low-income students disproportionately resist borrowing and therefore are effectively denied access to higher education, there is no evidence that for those who do borrow, loans cause them more hardship than others do.

Minority Student Borrowers

Although treating black and Hispanic borrowers as a group surely masks significant differences, the small sample sizes dictate this approach. The 11 percent of respondents who are black or Hispanic do not have average debts, average income, or average payment/income ratios which differ significantly from those for white borrowers. They are no more likely than white borrowers to credit the availability of loans with allowing them access to higher education. They are, however, more likely to say they feel burdened by their payments, with 29 percent saying they feel extremely burdened, compared to 20 percent of white respondents. Larger sample sizes of under-represented groups would allow thorough analysis of the role of racial and ethnic background in the impact of borrowing on students.

Vocational/Technical Borrowers

The 10 percent of respondents who last attended a vocational/technical school accumulated average total debt of only $9,000, compared to $19,800 for other students (Table Eight). However, because their incomes are significantly lower—$18,300 compared to $27,800—their monthly payment to income ratios are similar to those of students from other types of schools.

Almost half of the vocational/technical students pay less than 5 percent of their earnings for repayment, and students from these schools are more likely than others to say they don't feel any significant burden from repaying their loans. On the other hand, those who attended vocational/technical schools are less likely than others to believe their investment was worth it for career opportunities and much less satisfied with the personal growth to which their education led. These students are, however, much more positive than others about the debt counseling they received.

Non-Degree Holders

Only 60 people in the sample hold no degree or certificate, so it is difficult to reach conclusions about this group, but they do have both lower debts and lower incomes than those with degrees (Table Nine). Their monthly payments take a lower portion of their incomes but they feel slightly more burdened by the payments. Their responses to questions about their level of satisfaction with their investment in education are clear: they are much less satisfied than those who hold degrees or certificates. This is not surprising, since they abandoned their original educational plans and are less likely to have reaped financial benefits from their schooling.

Graduate Borrowers

Of the NASLS respondents, 12 percent reported having done graduate work in business, law, or health/medical sciences (Table 11). These were the only three fields in which more than 1 percent borrowed more than $30,000 for graduate study. These 131 borrowers had average total debt levels of $45,500, compared to $15,100 for all others. Median total debt is $32,500 compared to $12,250 for others. The average debt level is, however, somewhat misleading, since half of the borrowers have graduate debt of $20,000 or less.

Despite their average earnings of $40,900, which far exceeds the $25,000 for others, those who pursued graduate studies in these three fields use an average of 15 percent of their current monthly income to repay their student loans, compared to 11.5 percent for other borrowers. The distributions of monthly payment to income ratios are, however, less different than these means might suggest. Sixteen percent of professional students and 13 percent of others have ratios exceeding 20 percent.

Average debt levels for graduate professional students in business, law, and medical science are high enough to capture attention. Even relative to the high salaries graduates in these field enjoy, the monthly payments they are required to make are higher than is generally considered acceptable. However, because of their high incomes, most students from graduate professional schools are not at risk. Over half of them have monthly payment/income ratios below 10 percent. For most of those not in such fortunate situations, their high incomes make it possible for them to use a relatively high portion of their incomes for loan payments and still live at higher standards of living than they would if they

had not pursued these studies. Most are reaping significant monetary benefits from the investment they have made in themselves, and most of them appear to recognize this reality.

Conclusion

The NASLS survey indicates that overall, student debt has not caused most borrowers to dramatically change their lifestyles, nor do most of them regret the investment they have made. Many of them have accumulated significant amounts of non-education debt, which causes them as much discomfort as their student loans do. Borrowers overwhelmingly believe that the availability of loans has allowed them educational opportunities which would otherwise have been inaccessible. However, there has been a significant increase in the debt accumulated by individual students since the early 1990s and in the perception of borrowers that their debt is interfering with their lifestyles. More attention must be paid to those groups of borrowers who have significantly increased their borrowing in recent years—including graduate students, some four-year college students, and low-income students—to find ways to keep borrowing at levels which can be reasonably paid back, and which do not curtail continued education or certain post-graduation social and economic decisions.

There is no overwhelming evidence in this study that groups generally considered particularly vulnerable to debt burdens are facing a financial crisis due to their student loan payment. Pell recipients do have higher undergraduate debt/current income ratios than other borrowers, but do not appear to perceive their education debt as more burdensome. Additional work must be done to determine the extent that low-income students drop out before completing their degree due to financial worries and the need to borrow to cover tuition costs. Students from vocational/technical schools have less confidence in the value of their investment, but do not express more negative feelings about their debts. Those without degrees may regret their borrowing, but their debt demands a relatively low proportion of their current incomes.

While policy conclusions do not emerge directly from the data, the findings are consistent with the idea that rather than restricting the availability of loans, we should counsel students throughout their postsecondary careers to carefully evaluate their individual situations and prospects before incurring large amounts of debt. We should pay particular attention to those students

likely to accumulate high debt levels without the promise of high incomes, and those at lower incomes who must rely more on borrowing due to less financial help from their families. Moreover, we should develop clearer ideas about how much debt is too much for specific categories of borrowers. The bottom line is that individual students are incurring more debt. Without setting a standard borrowing benchmark— whether by discipline, school-type, career, family income, or other—it will be difficult for higher education institutions, loan providers, and others to gauge when borrowing levels by students begin to cause serious financial and social difficulties during the repayment period.

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Endnotes

1 These figures represent undergraduate debt for all respondents. Debt levels for those with *only* undergraduate debt are slightly higher (mean = $12,100, median = $10,500). The two groups are different because the group of all undergraduate borrowers includes those who went to college at an earlier date. Those who did not go on to graduate school are also systematically different in that many of them did not complete a BA.

Table 1

Demographics of NASLS Respondents (n = 1,098)

Gender	Male	38%	Female	62%		
Age	24 or younger	20%	27-30	24%	> 35	17%
	25-26	26%	31-35	14%		
Race	White	83%	Hispanic	5%	Other	3%
	Black	5%	Asian/Pacific Islander	4%		
Type of school last attended						
	Vocational/Technical	10%	Public 4-year	21%	Graduate School	23%
	Public 2-year	6%	Private 4-year	30%	Professional School	7%
	Private 2-year	3%	Military	1%		
State	Massachusetts	37%	California	13%	New Hampshire	7%
	New York	13%	Connecticut	7%	Other	13%
Year left school						
	1992 or before	9%	1994	34%		
	1993	22%	1995	34%		
Parent's educational level						
	Both HS or less	25%	At least one parent BA	53%		
	Both BA or higher	20%				
Marital status	Spouse	36%	Neither	55%	Partner	9%
Children	None	74%	One or more	26%		
Living arrangements						
	Own home	23%	Live with parents	17%		
	Rent	54%	Other	7%		
Current activity	Working full-time	74%	Unemployed	5%		
	Working part-time	8%	Working, not for pay	2%		
	Full-time & part-time	11%				

Table 2

Debt levels

	MEAN	MEDIAN
Total Debt	$18,900	$13,000
Undergraduate Debt	$11,400	$ 9,500
Graduate Debt (for those who borrowed for graduate or professional study)	$21,000	$13,800
Total Monthly Payment	$198	$150
Monthly Payment (undergraduate debt only)	$161	$134
Monthly Payment For Non-Education Debt	$ 1,000	$700
Total Monthly Payment/Income	12%	8%
Monthly Payment/Income (undergraduate debt only)	11%	7%
Monthly Payment/Income (for those who borrowed for graduate study)	14%	8%
Total Debt/Income	91%	50%
Debt/Income (undergraduate debt only)	68%	50%
Debt/Income (for those who borrowed for graduate study)	139%	83%

Borrowed for:

only undergraduate	66%
only graduate	5%
both undergraduate & graduate	30%

Number of Years Borrowed

1 year	22%	5 years	23%
2 years	18%	6 years	5%
3 years	12%	7 years	8%
4 years	8%	8 years or more	4%

Distribution of Total Debt

< $5,000	13%	$20,001 - $30,000	14%
$5,001 - $10,000	23%	$30,001 - $50,000	8%
$10,001- $15,000	22%	> $50,000	6%
$15,001 - $20,000	14%		

Distribution of Undergraduate Debt

0	5%	$15,001 - $20,000	13%
$1- $5,000	20%	$20,001 - $30,000	9%
$5,001 - $10,000	27%	$30,001 +	4%
$10,001 - $15,000	22%		

Debt by School Type		
Voc/Tech	$9,000	$7,200
Public 2-year	$7,700	$6,500
Public 4-year	$13,200	$10,300
Private 4-year	$17,600	$12,400
Graduate School ($13,500 graduate + $11,000 undergraduate)	$24,500	$18,300
Professional School ($36,000 graduate + $12,500 undergraduate)	$48,500	$35,600

Table 3

Perceptions of Burden

"Since leaving school my student loans have caused me more financial hardship than I had anticipated at the time I took out the loans."

	1987	1991	1997
Agree	27%	25%	36%
Neutral	23%	22%	23%
Disagree	51%	53%	41%

"Think back to the time when you first started your education after high school. If you could begin again at that point in time, and taking into account your current experience, would you borrow..."

	1991	1997
Less	31%	45%
About the Same	60%	50%
More	9%	5%

"To what extent do you feel burdened by your student loan payments?"

	Extremely burdened 1	2	3	4	Not at all burdened 5
1997	27%	28%	32%	14%	4%

Table 4

Perceptions of Benefits of Loans

	Extremely important (1)	(2)	(3)	(4)	Not important (5)
Importance for grad school	50%	19%	8%	8%	16%
Importance for school choice	43%	21%	14%	9%	13%

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Payments unpleasant but worth it	28%	38%	24%	7%	3%
Worth it for career	36%	28%	18%	12%	6%
Worth it for personal growth	45%	31%	15%	6%	3%

"How important was the availability of education loans in allowing you to continue your education after high school?"

	Extremely important 1	2	3	4	Not important 5
1988	39%	28%	16%	11%	7%
1991	47%	24%	13%	10%	6%
1997	52%	24%	12%	7%	4%

Table 5

Are the Benefits Worth It?

Payments unpleasant but worth it

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Changed career	18%	30%	28%	10%	14%
Did not change career plans	40%	36%	16%	6%	2%
Monthly payment/ income < 5%	33%	38%	16%	8%	3%
Monthly payment/ income > 20%	25%	31%	31%	9%	4%
No degree or certificate	24%	27%	32%	10%	7%
Associate's	26%	34%	25%	11%	5%
Bachelor's	27%	42%	22%	7%	2%
Doctoral degree	47%	47%	0%	6%	0%

Table 6

Perception of Impact of Loans on Lifestyles

	Strongly Agree (1)	(2)	(3)	(4)	Strongly Disagree (5)
Changed career	8%	8%	14%	24%	46%

	Extremely Important (1)	(2)	(3)	(4)	Not Important (5)
Delayed buying car	16%	15%	18%	18%	34%
Delayed moving out of parents' house	12%	9%	10%	10%	59%
Delayed buying house	26%	14%	14%	13%	34%
Delayed getting married	8%	7%	10%	11%	65%
Delayed having children	13%	9%	9%	9%	59%

Table 7

Pell Recipients

	Pell (37%) (n = 484)	No Pell (64%) (n = 694)
Mean total debt	$17,900	$18,300
Mean undergraduate debt	$12,400	$10,900**
Mean monthly payment/current income	12.6%	11.7%
Current income	$25,500	$27,700**
Loans extremely or very important for continuing education after high school	82%	72%**
Extremely or very burdened by loan payments	52%	49%
Agree payments unpleasant but benefits worth it	66%	66%
Knew how much debt they were accumulating	57%	61%
Total debt/current income > 100%	25%	26%
Monthly payment/income > 15%	21%	19%
Undergraduate debt/current income > 100%	16%	19%*
Undergraduate debt > $20,000	16%	12%**
Graduate degree	20%	30%**

* Significant at the .10 level
** Significant at the .05 level

Table B

Vocational/Technical Students

	Voc/tech (n = 104) 10%	Other (n = 994) 90%
Mean total debt	$9,000	$19,800**
Mean monthly payment/current income	11.7%	12.0%
Current income	$18,300	$27,800**
Loans extremely or very important for continuing education after high school	80%	75%
Not burdened by loan payments	25%	17%*
Agree payments unpleasant but worth it	61%	64%
Knew how much debt they were accumulating	66%	59%**
Investment worth it for career	53%	65%*
Investment worth it for personal growth	53%	78%**
Loan counseling prepared well	49%	38%
Total debt/current income > 100%	21%*	26%**
Monthly payment/income < 5%	46%	32%
Undergraduate debt > $20,000	3%	14%**

* Significant at the .10 level
** Significant at the .05 level

Table 9

Non-degree Holders

	No degree n = 60 (6%)	Other n = 1029 (94%)
Mean undergraduate debt	$6,900	$11,700**
Mean total debt	$7,900	$19,400**
Mean monthly payment/income	9.7%	12.1%*
Mean current income	$16,900	$27,500
Extremely or very burdened by loan payments	52%	49%
Causing more hardship than anticipated	47%	36%
Agree payments unpleasant but worth it	51%	67%
Investment worth it for career	30%	66%**
Investment worth it for personal growth	39%	78%**
Vocation/technical school	19%	9%**
Public two-year school	24%	5%**
Monthly payment/income > 15%	13%	20%
Total debt/income < 50%	54%	76%**
Total debt/income > 100%	21%	26%**

* Significant at the .10 level
** Significant at the .05 level

Table 10

Distribution of Graduate Debt Levels for Law, Business, and Medical Science Students

Graduate Debt	Percentage of Borrowers
0	10%
$1 – 10,000	20%
$10,001 – 20,000	18%
$20,001 – 30,000	15%
$30,001 – 40,000	9%
$40,001 – 50,000	11%
$50,001 – 70,000	8%
$70,001 – 90,000	4%
$90,001 – 105,000	2%
$105,000	5%

Table 11

Business, Law, and Medical Graduate Students

	Business, Law, Medical n = 131 (12%)		Other n = 961 (88%)	
	Mean	Median	Mean	Median
Total Debt	$45,500	$32,500	$15,100	$12,250
Undergraduate Debt	$13,100	$10,000	$11,200	$ 9,500
Graduate Debt	$32,100	$21,900	NA	NA
Monthly Payment/ Income Ratio	15.2%	9.0%	11.5%	7.0%
Current Income	$48,900	$42,400	$25,000	$25,000
Total debt/current income > 100%	40%		24%**	
Undergrad debt/current income < 20%	59%		38%**	
Undergrad debt/current income > 100%	8%		18%**	
Monthly payment/ income < 10%	56%		64%	
Monthly payment/ income > 15%	25%		19%	
Would borrow less	51%		44%	
Very or extremely burdened	60%		48%	
Delinquent in repayment	5%		8%	
Repayment much easier over time	22%		28%**	
Payments unpleasant but worth it	72%		65%	
Worth it for personal growth	82%		75%	
Worth it for career opportunities	78%		62%**	
Loans delayed buying car	38%		31%	
Loans delayed buying house	50%		38%	
Own car	81%		67%	
Owners with car loan	62%		62%	
Own home	37%		21%**	

** Difference between groups is statistically significant at the .05 level

NA Not applicable

Singing the Student Loan Blues: Multiple Voices, Multiple Approaches?

Patricia Somers / University of Arkansas at Little Rock
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I won't be able to buy a car or a house right away. This [the student loan payments] is just like having a house note without the house.

Well, I'm getting married in May, so, I kind of had to look down the road. He's planning on going for a Master's degree … we're probably going to have to take out a loan for that. So, it pushes the question of family way down the road …

… I don't like debt a lot because it puts me in mind of sharecropper situations and I came from a line of sharecroppers, where these people always own you because you always owe them. You can't go very far from them.

My loans pay for my child care … What am I supposed to do, leave the kids on the street? My credit cards pay for food. I can live on macaroni and cheese, but my kids can't.

Out of 25 grandchildren, only two of us went to college. I am the only college graduate. … and I was able to graduate only because of loans.

The next generation of people like you may be denied their opportunity to go to Congress, or denied their opportunity to serve the government, simply because they are working five jobs trying to pay off those debts.

I've given up on the federal government doing anything for us. These days I just hope they don't start taking things away.

These voices represent the faces behind the student loan statistics. Many scholars have studied the impact of student loans, but few have gone beyond the numbers and actually talked with students. In this paper, we give voice to over 500 students whom we have interviewed in the past two years, including those who borrowed, those who deliberately dodged student loans, and those who did not need loans. What we found were students singing the blues…

Background

Concerns about repayment have been expressed from the beginning of the program, and the literature on debtload has increased rapidly since the mid-1980s. The first studies focused on professional school students, especially in medicine and law, and were prompted by three main concerns: the number who elected to file for bankruptcy shortly after graduation to escape educational debtload, the popular belief that they shunned lower-paying jobs—often in public service—in favor of positions in higher paying specialities, and the growing level of debtload for students in professional school (Brotherton, 1995; Chambers, 1992; Dial, 1987; Kassebaum, 1996; Petersdorf, 1991; Zarkowski, 1995).

Another body of literature explored undergraduate debtload, and reported mixed findings on the impact of debtload (Atwell, 1987; Bodfish, 1989; Fisher, 1987; Greene, 1989; Hansen, 1988; Henderson, 1987; Hira, 1992; Holland, 1989; Horch, 1978; Pedalino, 1992; Schapiro, 1991; St. John, 1994; Topper, 1994). More current researchers have expressed alarm about debtload and the consequences for students (Baum, 1996; Cofer & Somers, 1997; Eaton, 1995; Greiner, 1996; Harney, 1966; Keynes, 1995; Somers, Cofer, DeAngelis, & Cook, 1997; Somers & Bateman, 1997).

This paper is divided into two parts. The first summarizes the multiple voices of over 500 college students based on interviews and focus groups held in the past two years (Somers et al., 1997; Somers & Bateman, 1997). These voices are angry and bitter and cry out for changes in the student loan program. The second part of this paper presents a number of policy changes for state and local governments. These recommendations are based on our student interviews and discussions with scholars and practitioners.

Many Student Voices

The following is a brief description of the methodology used in our studies on student debtload; additional details on the method and analysis are available elsewhere.[2] We conducted separate studies of undergraduates and graduate and professional students.

In the spring of 1996, we held focus groups with undergraduate students in upper-division courses. Thirteen focus groups were held at five public universities. One hundred and seven students participated. Of the students who participated, 58.9 percent were female and 16 percent were minority group members. The

average student age was 27.3 years; the range was 21 to 47 years old. Most (75.8 percent) were financially independent. Almost three-quarters of the students (72.1 percent) had taken out student loans with an average total of $11,579.

The second study included graduate and professional school students. In the summer and fall of 1997, we conducted interviews (electronically and in person) with 396 graduate and professional students. Eleven focus groups were chosen cross-sectionally. Focus groups were conducted at research, doctoral, and comprehensive universities. Two of the 11 focus groups were specialty groups, one composed of minority students, and the other of graduate students who worked full-time. The remainder of the students(276) completed our interview process electronically. Of the respondents, 55.1 percent were female; the average age was 30. Eighty-one percent of the subjects were Caucasian, 40 percent were married, and 19 percent had dependents. The sample was fairly evenly split between doctoral (44.4 percent) and master's (40.5 percent) programs. Seventy percent of the responses came from students at doctoral-granting institutions. A majority (57.8 percent) of these students had worked before entering graduate school. Sixty-eight percent of the sample aspired to a doctoral degree.

Themes

Many themes emerged from the analysis of the interview transcripts. They are:

- Pre-college Considerations of Financial Aid;
- Influence on College and Academic Choices;
- Do Parents Pay;
- All in the Family;
- Awareness of Debtload;
- Life Decisions;
- Aid to Minority Students;
- Maxing Out on Credit Cards;
- Trying to Avoid Student Loans;
- University Responsibility;
- Supporting a Family on Financial Aid;

- Hell No, We Won't Owe; and
- The Fed.

Pre-college Consideration of Financial Aid (What, Me Worry?)
Undergraduate students reported a very low level of awareness of the cost of attending college or the financial aid options available:

> "I thought you had to pay them all back at once. Like, when you graduated, you had to pay them all back."
>
> "I didn't know that student loans existed."
>
> "Our high school counselor didn't know anything about financial aid. Our English teacher had to tell him."

Most of these students were in high school during the 1980s when colleges became much more sophisticated about marketing their institutions and much more savvy about awarding aid. It's both sad and disheartening that the expensive messages that colleges were sending prospective students in glossy viewbooks and at college nights didn't register. Further, it is very telling that no student mentioned being informed of financial aid as a result of any state or federal government effort.

Influence on College and Academic Choices
(The Three Ps of Choice: Price, Price, Price)
We found undergraduate students to be very aware of college costs. Some made decisions about which institution to attend and what to major in based on financial considerations.

> "[This university] was the closest school, and since I drive 45 minutes a day [to get here] it was feasible; however, [this university] doesn't offer a degree in theater. I had to change my goals [and major in] public relations. [Later,] I believe that the cost of grad school will keep me from enrolling."
>
> "Cheap is important. I would have considered getting a medical degree if the debtload was not so tremendous. I just want to be able to find a job with a decent income."
>
> "I chose [this university] for one reason: 'cause it's cheap."

> "The cost of attending college has been a critical factor in [my] education. [The cost] has affected which college I chose and the profession I chose. [However,] I chose a major which I enjoyed, and it helped that it would allow me to earn the money to pay back any loans."

These remarks indicate that, at least for some students, postsecondary educational choices are limited by cost. Not only do students choose institutions based on price, their options also may be limited by which major is offered as well.

Students also expressed distress at how the cost of attending their institution had increased while they were students:

> "The cost has been surprising to me. I don't understand why they continue to raise the price on tuition for no apparent reason. Then students have to take out more loans or pay more money out of their pocket if they decide not to take out any loans. I realize that eventually I will have to pay back a large amount of money in student loans, but I try not to worry about that just now."

All of these comments indicate that students are acutely aware of cost, and know much more about price than aid. This price consciousness indicates that universities should be cautious about tuition increases, and emphasize net cost (tuition - aid).

Do Parents Pay? (Where Are Mom and Dad Now That I Need Them?)

One of the commonly-held perceptions is that parents help support their undergraduate children. The students we interviewed had mixed experiences:

> "…undergraduate, my parents paid for everything, so I didn't have to take up a loan. [But when I go to graduate school] it's loan time.

> "…there was no way I was going to get a loan for college. My parents had to pay for it. They had too much money, so there was no loan."

> "My brother [and I] are both in school now, and my parents can't afford to send both of us and pay all the costs involved, so now that I'm fixing to graduate, I have $15,000 in loans. Now, it's how am I going to pay this back? How long is it going to take to pay it back?

What's the interest on it?"

"My parents were retired my whole B.S. degree career, so I did it on my own."

Because of the intergenerational nature of the sample, two students reported family experiences with financing college. One student said her mother had to take out a loan for her own schooling, but now was able to help the daughter pay for college. A father reported that his sons worked during the summers and took off semesters when necessary to make enough money to pay for college on their own.

All in the Family

When it comes to financing graduate education, it's all in the family. Graduate students are not in it alone. For some students, parents and spouses shared in the worries of financing graduate education, often creating more worry for some graduate students who were concerned about the implications of the cost of their education on their families. For others, the difficulty of paying for their graduate education came because of a lack of familial or spousal support.

The struggle to afford graduate education impacts families. Parents were often troubled by the desire to offer children a graduate education and the reality of being unable to afford it. Many graduate students were painfully aware of their parents' plight. Some graduate students acknowledged the tremendous financial assistance offered by their parents, while others faced different realities. As one student said, "Most people can't afford to put a child (through college), not to mention two or three that are the same age." One student spoke of not wanting to burden her retired parents further—they "are old enough."

Some graduate students spoke of the frustration that resulted from their evaluation of financial need as a dependent. A family income capable of supporting a graduate student's education does not necessarily equal a family willing or able to help out. Even if able to assist the student, the family aid may not be stable or ongoing. As one graduate student said, "Relying on our parents isn't a very good source." Another student summed up her plight this way:

"During the last year of undergraduate, my financial aid award was based on a family contribution that my mom never provided that year. Then, I ended up charging all my groceries and some books that year."

Employed spouses seemed to take the financial heat off graduate students. One student spoke of being "able to avoid a lot of debt because my spouse works." For one particular student, this comfort was short lived. He continued to speak of the impending birth of his child and the financial concerns brought about by his wife's plans to quit her job after she gave birth. He said:

> "I'm faced with a real tough decision as to what to do, realistically, in incurring a large amount of debt, significant debt, in order to finish, which will be a long time down the road, or whether to get a loan where I know I can secure it, and provide for my family."

For some, financing graduate education may have a tremendous impact on major life decisions such as when, or if, to start a family. One graduate student recalled being told "You don't have babies while you are in graduate school." For others, it's not the decision of whether to have children, but how to support the children they already have. Providing for one's family while in graduate school is a concern for many students. Students with children are concerned not only about short-term costs, such as food, clothes, child care, and housing, but they also have some legitimate thoughts about providing for the family in the years to come. The remarks of a non-traditional student may reflect the sentiments of many older students with family responsibilities:

> "Right. Of course I'm working all this time, but how am I going to pay for two or three children to go to college if I am still paying mine [loans], 20 or 30 years down the road? It [the financial aid system] doesn't recognize a non-traditional student."

Graduate students would like the financial aid system to recognize the special part that families play in a family member's graduate education. Suggestions included increasing the amount of support available to students with families by adding subsidies for day care.

Awareness of Debtload (Call the Bankruptcy Attorney!)

Undergraduate students exhibited a lack of awareness about finances in general and student loans in particular:

> "Oh my God, oh my God, oh my God!!!!! I can't pay this back. I can barely pay my rent and food with my salary. I should have gone to the JUCO and not [expensive private college]."

> "Nobody really sat down with me and budgeted... I was thinking in terms of work-study that paid so much per week... I needed some budget counseling."

On the other hand, a few students were very aware of the payback terms of their loans, consolidation loans, and interest rates:

> "I paid all my interest up front. I've been paying interest the whole time, and the way it's set up is all I've got to do is pay the principle."

> "I think mine [loan payment] is going to be around $200 a month. I don't know for how many years."

Many graduate students came to the interviews and focus groups clutching loan documents and pleading for help in understanding them and calculating their debt. This indicates that despite the counseling mandated by the student loan program, many students are uninformed. Perhaps this is a reflection of the "charge it" generation.

Virtually every student knew the conditions under which they could defer loans and the grace period. One person described the strategy that his son uses:

> "He looked at the pros and cons of student loans, where he would go to school, if he could continue to afford to go without student loans. If you lay out a semester, the loan liability begins. [He just keeps going part-time] semester after semester."

So, while some students were very knowledgeable about loans, others, especially undergraduates, were almost clueless.

Life Decisions (The House Note Without the House)

Students feelings were mixed on how their debtload would affect their life decisions after college. Many students expressed trepidation about handling the loan payments:

> "I won't be able to buy a car or a house right away. This [student loan payments] is just like having a house note without the house."

> "I'm figuring $20,000 a year here [for graduate school], so that's about $80,000. I want to keep it under $100,000. That's scary, that's a house."

> "It is not just the loan amount that scares me. I can pay that off. But it's hard to graduate with debt on top of the fact that I have no savings. No retirement plan, etc. I feel I am so behind…"

Two students expressed reservations about marriage:

> "I would not have married the woman had I known she had defaulted on $30,000 of student loans (one divorce and one bankruptcy later)."

> "I'm getting married in June and she has no loans… [she's going to] pay for everything. She's bringing all the stuff, and [I'm] bringing all the debt."

When asked about consumer purchases, students had definite plans to curtail. When asked how the student loan payments would affect their future finances, these students responded:

> "Divorce."

> "[We'll wait on] cars, house, baby."

> "I thought when I graduate, I'll get a new car. Then you start adding it up, not yet."

> "I've got a truckload of debtload."

> "[The loan payments] are like a house note without the house."

Students felt considerable pressure to land a high-paying job quickly, and had ideas on how to temporarily earn more money in order to pay off their loans.

> "I think for health systems, the highest paid jobs are, if you want to go, in the Middle East. You don't have to pay taxes. You do have to stay pretty much on the compound. Five years working as an expatriate in the Middle East, and you can do very well."

> "…there's a traveling position where we can be a traveling therapist and make more money. But, you're on the road more often, but you don't have to pay housing costs, so basically all the money you make goes in your pocket… I don't want to have this loan for 30 years. I want to pay it off."

Virtually all students reported that their debtload would affect their financial decisions after graduation.

Aid to Minority Students (Forget the Boot Straps; or I Don't Have Any Boots!)
In general, minority students expressed an aversion to borrowing. These quotes are indicative:

> "...I don't like debt a lot because it puts me in mind of sharecropper situations and I came from a line of sharecroppers, where these people always own you because you always owe them. You can't go very far from them. However, in all the loans and credit cards, cars, and so on, the one that I find least painful is actually educational loans. It's the lowest interest rate; it's the fairest; and I got something that was really of value as opposed to my car."

> "Taking out loans is intimidating. But I know if I sit out of school, I'll pay a lot more."

Another student expressed the fear that public policy on aid is heading in a laissez-faire direction:

> "They're saying, pull yourself up by your boot straps. Well, I ain't got no boots on. You're the fellow with the boots, you pull yourself up. I need some boots first."

Maxing Out on Credit Cards
AMEX, don't leave for school without it! One of the most surprising things we discovered was how students used credit cards to pay for college costs, sometimes using credit to avoid a student loan:

> "Actually, I've charged my tuition, I've charged my books, I charged my food. [Even with] the amount of loan money I'm going to get this semester, I'm still gonna be $100 in the hole, and that's just rent, electric, and phone. That's not including food. That's how I'm eating this semester, by charging it on my credit cards. So, you get real good at playing the interest rate game on credit cards."

> "My loans pay for my child care... What am I supposed to do, leave the kids on the street? My credit cards pay for food. I can live on macaroni and cheese, but my kids can't."

> "Why do students use credit cards rather than student loans? Desperation. You don't have to do paperwork. Avoid the confusion and headaches. It's easier. I know one person who had to because they didn't get their financial aid in time, had to wait about two months, so they had to pay for school and charged it, and then by the time the money came around, they spent the money on something else."
>
> "My brother charges it not because he wants to, but he doesn't have any other choice. We're an upper-middle class [family]. We don't have money to send two kids to college, but we have too much money to get a loan."
>
> "Instead of saying, 'I'm gonna take out a student loan,' they just say 'I'm gonna put it on my credit card.'"
>
> "I know students that take out a loan and by the same token they'll still charge fees on the credit card, and then they go and invest money. . .Apparently it works out that they break even."
>
> "I always say you can tell who the freshman are because they push the pull doors, pull the push doors, have umbrellas when it's raining ... and stop at the credit card tables in the student union."

Students report that it is extremely easy to receive multiple credit cards, and max them out their first semester in college.

Savvy students and their parents have discovered a loophole in the bankruptcy laws. If a student receives an "educational benefit" insured or guaranteed by a governmental unit, it may not be discharged in bankruptcy unless the debt became due over seven years before filing of the bankruptcy or the debt would impose "undue hardship" on the debtor or the debtor's dependents (U.S.C. 523(a)(8)). However, if that same student charged tuition, fees, and other expenses to a credit card, he or she could discharge the debt in bankruptcy. Of course, in either case, the student would have to otherwise qualify for bankruptcy. This scenario does, however, raise the question of equity in how bankruptcy treats student debt. Poorer students, who only qualify for student loans, are held to a

much higher standard for discharge in bankruptcy than middle class students who charge their debts on credit cards.[5]

AMEX, don't graduate without it! The graduate students surveyed reported heavy use of credit cards. Although many of them expressed concern over the high interest rates charged by credit card companies, they tended to view their use of credit as a necessary evil. A number of the respondents had left their jobs to pursue graduate education, and student loans and credit cards were the primary, if not sole, source of "income" while attending graduate school.

Close examination of student responses regarding the use of credit cards revealed several commonalities. First, there was the presence of a "do-whatever-it-takes-to-get-through" attitude regarding graduate school financing, best summed up by the person who said, "I mean, school is the most important thing to me, and if I'm going to put myself in debt to wing it, well then so be it. I'll cross that bridge [worrying about debt repayment] when I get to it."

The use of credit cards to finance or supplement the financing of everyday living expenses was common. Students reported using credit cards for items ranging from groceries to rent to other necessities. As one student put it, "I mean I have to [use credit cards just] to... live in my house and take care of my children..."

While other students might not use credit cards for living expenses on a regular basis, many cited having to use them when nonroutine expenses arose. Expenses such as car repair were commonly reported as having been paid for by credit card.

Finally, students used credit cards frequently as a temporary source of money for college tuition, fees and textbooks. They used credit cards to cover these expenses until their loan checks came in or until they got paid from their summer jobs, when they would "pay" their cards back.

Trying to Avoid Student Loans (Jist' a Littl' Bit)

Many students enter college with the vow not to take out student loans, only to see their resolve to stay out of debt crumble:

> "It was a big consideration; I think it was a pride thing. I wanted to get through without the loans, but I also realized it was impossible."

> "I thought, 'I'll borrow just a little bit.' Now, it's like, 'Oh, I'm gonna be in debt, so I'll just borrow some more.'"
>
> "I only had to take a loan my last year in [undergraduate] school because I totaled my car."
>
> "The expenses are dirt cheap [here], but what is so funny is that we're all sitting here taking out loans because we can't handle it [the cost]."
>
> "My perception was... that loans were taken out by people who couldn't get grants... But then I realized that the only way I could live and go to school was to take out loans, so I took them out. I'm digging myself out the ditch now... I realize that loans aren't just for the people who couldn't get grants, they're for the people who are actually trying to go to school and live and survive."

These quotes indicate the lengths to which students go to avoid loans. Some students are able to go to undergraduate school without loans:

> "I'm not in the same boat as most of y'all... because I was out of school for 10 years before I ever came back to college. I worked for a while, put back some money, plus my parents gave me some money. Then I was on scholarship all during my undergraduate."
>
> "I kind of thought that I would have to... just because I thought that everybody had to have loans to go through school. My mom had to have a loan to come back to school. But, I had a full scholarship because of my grades in high school. So, I didn't have to take any [loans] out for undergraduate..."
>
> "So far I haven't had a loan though I went through about $20,000 of savings which is pretty well exhausted. At my age, I'm gonna be missing about five years of work... and I'm avoiding it [loans] as much as possible, because I really need to be building up a retirement once I get started and not paying off loans."

Almost 18 percent of the undergraduate students in this study have received no student loans, and 65 percent of the graduate students have qualified for loans, but over half reported trying to avoid loans.

University Responsibility

The "U" as used car salesperson. The students felt misled by institutional admissions and financial aid offices. Some of their statements came close to accusations of "bait and switch" tactics:

> "Those admissions officers are just like used car salesmen."
>
> "I don't know about y'all, but when I went and talked to people about coming to college, when I got my first scholarship, they [the university] told me that when you get into... school, there's gonna be all kinds of scholarships and money available, and there's not."
>
> "They'll [the university] loan you all the money you want."
>
> "I have no idea of what my options are. The university never told me anything. I took loans because they would pay the tuition."

Another student wanted the financial aid office to reduce the amount of confusion caused by multiple loans:

> "...every semester you start getting envelopes stuffed with confusing gobbledy gook about these loans, and they come one for each loan, so that by the time you get to your third or fourth year or so of graduate school, you start getting 20 or 30 letters every three months, each one saying the same thing, but about a different loan."

Making money from financial aid. Although some gave good reports, many students were disgruntled with and suspicious of their institution's financial aid office. These two quotes are examples:

> "...with the Financial [Aid] Officers, I don't think they're using their resources. The universities that I've dealt with, the first thing they want you to do [is borrow money] especially now since all direct loans go through the schools and they're making the money off the interest."
>
> "...[it's] the same with all schools handling loans directly now. I don't think you get [information about other types of aid] from your university financial aid office, because it has turned into a money-making proposition for them."

These remarks are indicative of the students' attitude toward the university, particularly the financial aid and admissions offices. The students believe that scholarships and other aid are plentiful, yet feel tricked when they only qualify for loans. Further, they take the rather cynical view that the universities are doing this deliberately to make money from direct loans.

Supporting a Family on Financial Aid
(It's Macaroni and Cheese Again Tonight, Kids)

Students with families, especially single mothers, had a particularly difficult time living on the estimated student budget. Most took out the maximum amount of loans.

> "Most of us have families and are raising them and all, and also we're older than the bulk of the crowd going to college. Those people are fresh out of [high] school and they're still under mommy and daddy's wing and don't have any big responsibilities. But we all had responsibilities when we started this."
>
> "[I] went back [to school] and my loans are going to pay for my day care, which is over $700 a month."
>
> "We're both going to school and neither one of us has insurance"
>
> "My car is 10 years old and has 177,000 miles on it. I need to make it last several more years… I don't mind eating macaroni and cheese every night. But with my kids, I don't also want to wait until they're twelve to take them to Disney. I'm trying to balance between being able to do things with my kids because I don't have a lot of time with them right now… So, at this point, I am tempted to take out a loan so I can say, 'Yea, let's go to Discovery Zone on Saturday'… there is an odd balance in there that I'm trying to achieve, and loans are working into it. We surely can get a pizza tonight because I have to say 'no' to so many things, that actually a student loan would allow me to say 'yes' to something.'"
>
> "If it wasn't for the loans, I wouldn't be able to go, 'cause my wife, she has a beauty shop. She doesn't make much money. She couldn't keep us going."

> "When I first started out, the first two years, I tried as hard as I could not to take a loan out. My husband was going to school, too, and we are both trying to make life better for our son and after two years, I couldn't afford [it]. It's embarrassing living poor, and finally, I had to take out loans. If that's what I've got to do to make life easier for my son later, that's what I've got to do."

Perhaps nothing sums up the problems of single parent students than the following exchange that took place in one focus group:

> Student A: "If you have any little children that depend on you, then you've got to do something. . . you will do whatever it takes, I promise."
>
> Student B: "And I just thought you were waiting for the bus when I saw you standing on that street corner the other day."

These poignant words indicate the very mixed feelings felt by students with children. They have limited funds and limited time. Their student loans cover the basic living expenses, child care, and at times, let them do things with their children.

Hell No, We Won't Owe

Trade-offs: whatever it takes! Many of the students indicated that college was so important to them, that they had to make big trade-offs:

> "I sold my house to pay for school and living expenses while in school. Cost did not enter into decision making. [This major] is what I wanted to do, so I did whatever it took."
>
> "It has taken me longer to complete my degree [because I work and go to school]."
>
> "I have learned how to live with a very large debt over my head and adapted to credit card use."
>
> "I moved back to [this state] so that I could afford school. I had to use my savings [and the] GI bill, but felt that I could borrow if I would need it. Without the loans, I would not be in school."
>
> "I came [here] as a freshman wanting this profession and nothing, not even the money I would have to borrow, would keep me from reaching my goal because I knew it would work for me and society."

> "I have worked full-time since the day after my graduation from high school, and because of this, my appreciation for money and time has been enhanced. I feel that because I have worked my way through school, my maturity has greatly increased, therefore making me work harder for my academic goals."

The love/hate relationship with student loans. Students had mixed emotions about student loans that clearly surfaced during the interviews:

> "It cost a lot, but my husband and I have a child that is four. We are trying to make a better future for us and our son. That's what's important. That's why we take out student loans."
>
> "I don't have just student loans. I have a truckload of debtload!"
>
> "If student loans were not available, I could not even consider attending college."
>
> "[Loans are a] great burden with a fairly high amount of stress."
>
> "[Loans] have made me look for higher paying positions, but have also made attending college a reality for me."
>
> "With loans, I had security (financial) and was able to do better. I get to pay them back now—and that won't be too fun!"
>
> "[Loans have] made me realize the importance of being dedicated to my studies so that I may realize the full potential of my education and get the best job possible."
>
> "My banker loves to see us. Between my wife and I, we owe $60,000."
>
> "Out of 25 grandchildren, only two of us went to college. I am the only college graduate… and I was able to graduate only because of loans."
>
> "I hope I pay off [my student loans] in full before I die."
>
> "[Taking out student loans is] like playing football on Astroturf. When I'm tackled, my arm gets skinned up. I don't feel it during [the game], but afterwards, I have scabs or worse."
>
> "*I* am an investment."

> "[They've] cut people out of the system. [The only way to attend college is to] use student loans to live on."
>
> "The benefits [of education] far outweigh the cost [in student loans]."

The rule, not the exception: student loans. Student loans to help subsidize advanced education are a reality for many graduate students. While preferring "free" money such as grants and wishing that graduate assistantships came with better benefits and pay, it seems as if graduate students have come to accept student loans as the predominant way to subsidize education. However, that doesn't mean that they have to like it. As one student put it, "I think they need to get over the fiction that somehow you can go to graduate school without student loans… it's simply not possible."

Graduate students may have come to live with the predominant role that student loans play in the financing of their education, but they have real concerns about being able to repay their debt and how a repayment schedule will affect their lifestyle after graduation. Some graduate students spoke of concerns about their loans "snowballing" so that when they graduate, their "payments are going to be outrageous." Others talked of "taking out more and more loans" and not realizing the enormity of the debt accrued. One graduate summed up the easy accessibility of and reliance on student loans with this vivid analogy:

> "Getting these loans is like playing football on Astroturf. You get tackled, your arms are all skinned up, you're bleeding. While you're out there in the game, you don't feel it. After that game is over, you are in so much pain. It's the worst thing in the world. While you're going for your education and getting these loans, you don't see that. You don't see the burning and the bleeding."

For those who have a sense of the debt facing them, the "big picture" is often difficult to see. Few spoke of the doors that will be opened by their graduate education or the increased earning potential afforded by a graduate education that will serve them a lifetime. For some, delayed gratification may not be a realistic picture. Some graduate students have difficulty believing that the reward, particularly the financial gains afforded by an advanced degree, will be there for them. A marine biology student reflected this sentiment when he stated, "It's not like you can expect your income to be up there …." Another said, "I

wouldn't take out a loan to get my degree in education. There's no way. I'd be losing $10,000 a year."

Some graduate students long for the good ol' days when the interest rates on student loans were 2 to 3 percent. As one student stated, "Nine percent on $15,000 is not low interest." Another acknowledged that he'd given away his age and spoke of the National Defense Student Loan program that allowed him to cancel 25 percent of his student loans for every year of voluntary service. Others had more lofty dreams, such as "no-interest loans."

If they have to "mortgage their life," graduate students would like a little help from Uncle Sam. Basically, graduate students seem to want time and options in repaying student loans. Students spoke of "work programs to gain experience and pay off loans" and "more 'forgivable loan' opportunities." Some want to strike a bargain, such as, "no interest upon successful graduation." If left up to graduate students, student loans would be easier to receive and offered at lower interest rates. Part-time students would be eligible for loans, and there would be a no-interest deferment period after graduation. Going even further, one student calls for "a stipend program based on the European model."

This is not to imply that many graduate students do not realize the opportunity that subsidized loans provide them. Most realize that there is no "free lunch" and that accessing graduate education comes with some responsibilities. One student sums it up this way, "I'm actually really grateful for the student loan program. It's enabled me to finance my education. I just wish that I hadn't borrowed so much!"

The Fed

Messages to Congress (go to Wal-Mart like the rest of us). Some of the strongest responses we received were the messages from the students to Congress. Many of the undergraduate interviews were done during or after the federal shutdowns in late 1995 and early 1996. Fearing that student aid programs would be cut, students were vocal in their opposition to this possibility. First, students criticized Congress for their spending decisions in other areas:

> "Stop giving all our money to Columbia... We give so many countries so much money... I don't think we've put enough emphasis on education in this country."

"...I don't get offended by us giving money to other countries, because I know that they would help us in the long run. What frustrates me is I was saying quit spending money on missiles we don't need... or weapons we don't need. And in the process, you're making the country ignorant... quit buying hundred dollar soap dishes for generals—they don't need them. Go to Wal-Mart and get them for $3 like the rest of us."

"It's like we have nothing but buffoons in office now. They get in there and they're strictly self-serving. They work to propagate the 'good old boy' system... like the Congressional pension; it's ludicrous. They should have a pension that should be equal to something you'd get in business... I think we're going to hit critical mass one of these days where there is no longer gonna be anybody there to pay the piper. You can't keep deferring things, like we're putting things off now on the next generation."

"The waste in the student loan program is a drop in the bucket. Go after the rest [of the abuse] first."

Students took Congress to task for their perceived shortsightedness on the student aid issue. These two remarks are indicative of student views on aid as an investment in society:

"I think [student aid] is one of the best investments that they can make. They'll get it back in taxes tenfold."

"... if I wasn't in... school, then I might be working at McDonald's and I might be able to support myself and my daughter, but I wouldn't ever be putting anything up above and beyond that. This way I'll be able to support myself and my daughter and pay a lot more taxes..."

Students were bitter when they couldn't qualify for aid, despite their low- or middle-income levels. They argued for more generous entitlement levels:

"Everybody I talked to says... they [the federal government] say we were too rich for a loan or too rich for [a grant]."

> "On the grants, make it a little more equal. You have to be low income or minority to get it; include everybody in that pie. Just don't pick a segment [of students] and say… this [grant] is for you, but you can't have it."

> "…you've got to put your money where your mouth is. If you're going to value graduate work, then put your money there, too. Make it even, more balanced. Don't make it so out of proportion that you're killing the people … You're praising people for getting there [graduate or professional school], but you're going to kill them getting them there. It doesn't show where your values are as a nation."

Finally, two students voiced the opinion that government can't do everything. One said that this is a "mindset that needs to be eliminated."

We were surprised at the vociferousness of the responses in this category. Clearly, the students were fed up with politics in general and all types of abuses in federal programs, including the student aid program. Further, middle-income students who didn't qualify for aid were quite embittered. Several times, the topic of term limits for elected officials was mentioned as one way to stop the perceived callousness of career politicians.

Where are you now, Professor Gingrich? In general, students felt that the federal government has abandoned them in any number of ways. Several students pointed out the number of members of Congress and the Administration who previously had taught in institutions of higher education. One said:

> "There are so many people in high positions who came out of academia… so, you know, maybe they need to be reminded about people in universities. 'Look at where you came from and remember where it got you.' The next generation of people like you may be denied their opportunity to go to Congress, or denied their opportunity to serve the government, simply because they are working five jobs trying to pay off those debts."

One student summed up the general feeling: "I've given up on the federal government doing anything for us. These days I just hope they don't start taking things away."

We talked to and heard from students all over the country on the issue and the context surrounding financial aid, especially student loans. We learned that most students, unlike the popular image of a college student, were dedicated not only to achieving a better education, but to being better citizens with that education. The majority were, however, concerned that no one really cared about what they had to offer, and no one really wanted to assist them. Their frustration and anger was not unidirectional. The institution, the federal government, financial aid directors, credit card companies, and often professors and family were the subject of their diatribes. What we did learn was that most thought the programs were poorly designed and not particularly student-friendly. Graduate students wondered why there were no grant programs for them, especially since they would be making a significant contribution to society after graduation. Undergraduates, especially those in low-paying fields like teaching, were equally concerned about how they would repay their loans. They perceived that all the talk about reform was only window dressing, and that the proposals they were aware of only changed the delivery mechanism, not the root of the problem. Many students were concerned not only about their particular situation, but what would be facing their brothers, sisters, and children. In other words, they were extremely tired of the rhetoric and wanted to see substantive changes. The following section details many of their suggestions into workable solutions. Many are new and innovative, others have new twists to proposals advanced earlier. What we suggest is the distillation of many voices proposing multiple approaches.

Public Policy Initiatives

Students believe strongly, among other things, that there should be some method of lowering their cost of attending college at both the graduate and undergraduate level. Even as we conducted the interviews and focus groups for this study, the federal financial aid landscape was changing. While very few (we can recall only two) were cognizant of the Taxpayer Relief Act, we believe that all would have agreed with its provisions, as we do. The interest deduction and the tuition tax credit provisions will help students, but there are other reforms that we believe are needed and supported by the feelings of the students we interviewed. This section will outline a number of federal financial aid program reforms we believe are supported by this research.

Student-Centered Initiatives

If you build it, they will come. Recently the Bankruptcy Review Commission issued its report, and recommended that students be allowed to discharge federal student loans if they otherwise qualify for bankruptcy. The current rules allow, if a person is otherwise eligible, for the discharge of federal student loans in cases of undue hardship or after seven years of repayment.

However, three factors make a mockery of the current bankruptcy laws on student loan discharge. Courts have widely differed in their interpretation of "seven years of repayment" and "undue hardship" (Somers & Hollis, 1996). Secondly, conciliatory bankruptcy judges often take the approach of "splitting the difference" regardless of the law. Third, and most compelling, savvy students and parents have discovered that students who charge their tuition and other college costs to credit cards can discharge these debts in bankruptcy. So, the current law works perversely. Students who can qualify for credit cards have the luxury of discharging their debts in bankruptcy. Poorer students, whose only option is loans, have much harsher restrictions.

The results of this study indicate that many students, especially full-time graduate students, would qualify for and take bankruptcy if the option were available. Based on anecdotal evidence, many lower-income students holding minimum wage jobs, and who borrowed money to attend proprietary schools, also would take advantage of the changes in bankruptcy procedures. What do they have to lose?

We do not agree with the position taken by the Bankruptcy Review Commission due to both the economic impact to the government, and ultimately the taxpayer, and the social costs associated with bankruptcy. Under the current system of federal financial aid, it is expected that students or their parents will pay a portion of their education costs. Allowing students to discharge their debt without attempting some form of repayment would eliminate this personal responsibility and shift the entire burden eventually to the taxpayers.

We believe that more socially- and economically-sound policies should be adopted, which we will discuss later in this section. If, however, the current political situation demands (as the students we interviewed would demand) some action loosening the restrictions associated with bankruptcy, we would suggest the following alternatives: 1) do not allow complete discharge of student loans in Chapter 7 bankruptcy cases; 2) allow discharge of student loans only

after at least one-half of the total accumulated debt has been retired; and 3) establish procedures mandating better recordkeeping by the bankruptcy courts on this issue.

Eternally student loan: you keep paying, and paying, and paying . . . Income-contingent loans have been on the reform agenda for student loans for the last three decades. The dramatic increases in the amount of borrowing for education raised fears that students could not afford the rapidly escalating payments that would result from this increased borrowing. But, is the current income-contingent repayment plan an improvement? An illustration of the effects of 10-, 20-, and 30-year repayment plans on two different loan scenarios is helpful. The first scenario could represent that of an undergraduate who accumulated $20,000 in educational debt, and the second would be that of a graduate student who acquired $70,000 in loans. Alternatively, one could consider these two scenarios as the experience of a public school student and a private school student.

The monthly payment amounts for the extended repayment options would be substantially less than that of the standard 10-year repayment plan. Conversely, total cost of loans with extended payments would be, however, substantially larger. To repay $20,000 and $70,000 loans over a period of 30 years would cost an individual over $57,000, and $200,000 respectively. These scenarios indicate the persuasive nature of an income-contingent loan repayment.

Since the income-contingent plan was conceptually developed to promote employment in low-paying public service jobs, we wonder if the current program, when the full economic impact is known, will help meet its objective. We think not. We believe that a different structure for income-contingent plans is needed. We propose the following: 1) a percentage of a debtor's salary is established, by federal regulation, setting the maximum amount that can be used for repayment of student loans; 2) the 10-year repayment period is not changed; and 3) after a maximum of 10 years, the loan is closed, and no additional payments are required. The monthly repayment amount would float with income and could be repaid in less than 10 years. We concede that items such as default, late payments, and bankruptcy would complicate this plan, but these factors complicate all repayment plans. Under this alternative income-contingent plan, an individual would not be saddled with a lifetime of debt, and we think would be more likely to select public service employment.

The Morrison's repayment plan. The stock of human capital, increased by each student's progressive educational achievement, benefits not only society and the public, but the employer of that student. Many employers offer cafeteria-style benefit plans to their employees. The majority of cafeteria plans set a maximum dollar limit and allow employees to select from a number of benefit options such as health insurance, life insurance, retirement plan contributions, and often times, cash payments.

We propose that "student loan repayment matching" be included in employer-offered cafeteria plans. Employees would be offered the option of taking a portion of their total fringe benefit package in the form of a match to their monthly loan payment. We found that many students with loans were marrying other students with loans. In two-wage-earner families, health insurance is taken by only one partner. Under this plan, the second partner could take loan repayment as an option. This option would encourage additional education of employees and establish an alternative to tuition payment plans. Companies would be free to set maximums and partial matching options. To encourage employees to implement these options, special tax deduction provisions for employers could be established.

It is easier to get forgiveness. One of the cornerstones of the present federal financial aid program is that aid is awarded without regard to a student's field of study. Proprietary schools offer truck driver training and dog grooming. Universities and colleges offer majors in 15th century Russian poetry and golf course management. No one is squeaky clean on this issue. Academics argue that each of these disciplines are needed in our society today. The policy of student choice of major allows study in areas where few if any careers are available, thereby making repayment of students loans difficult, if not impossible. Mumper (1996), although in a slightly different context, refers to our current policies as a "spread-rather-than-target allocation strategy" (p. 227).

Early federal financial aid programs, like the National Defense Education Act of 1958, limited choice by targeting specific areas of study. Debt cancellation was provided for those who became teachers after college, and graduate scholarships were established to encourage study in areas such as science and engineering. The program was focused on fields of study that were of national interest. We believe in student choice, but believe a targeted approach to

repayment is a viable option, and suggest a plan of debt forgiveness for specified high-demand and low-supply occupations. A student would not be given additional consideration for majoring in math and science teacher education, but would be given repayment consideration after they became a math and science teacher in the public schools. Repayment plans would be the focus of this reform, not targeted disciplinary aid. Repayment consideration could take the form of forgiveness of a portion, or all, of an existing federal loan.

These programs are not new. Most states currently have a medical education loan program that provides loans to medical students; and in return the student promises to return to a rural area and practice family medicine. A portion of the loan is forgiven for each year the freshly-minted doctor remains in the rural area. Default provisions are stiff, generally with the entire loan coming due if the new doctor decides not to go to a small town. Similar programs could be developed for high-demand or low-supply jobs.

Program-Centered Initiatives

If you are going to do it, do it right. Several proposals have been advanced over the last decade to address the growing concern over the issue of proprietary schools. The most common proposal has been to call the problem a job training issue, and shift the responsibility to the Department of Labor. However, the proprietary school problem is both a quality issue and a budget issue, and the Department of Labor solution does not adequately address either.

From a cost standpoint, in 1992-93, students at private, for-profit institutions, in less than a two-year program, borrowed more than students at a four-year public institution and almost the same as those at a four-year private institution, on average. Gladieux, Hauptman, and Knapp (1994) using 1990 data from several sources, compared the average federal award per aid recipient for the same types of institutions. They reported that public two-year, public four-year, private nonprofit, and proprietary students received $286, $891, $1,535, and $2,722, respectively.

Further evidence of ineffective quality control is revealed by examining the default rate at proprietary schools. Even though the statistics show that default rates at proprietary schools have dropped fairly significantly (College Board, 1997), the results are deceiving. In 1990, the borrower default rate for proprietary schools was 41.2 percent, and the overall default rate was 22.4 percent.

Corresponding default rates for 1994 were 21.1 percent and 10.7 percent. However, 514 proprietary schools dropped out of the program between 1990 and 1994. Probably a large portion of those institutions were forced out of the program because of high default rates. Mathematically, the loss of a large number of high default rate schools would necessarily force the average default rate down. Therefore, the drop in default rates for the proprietary schools may be more a function of the calculation than of any definitive action by these schools.

The triad of state, regional, and federal agencies charged with assuring the quality of postsecondary education has not worked particularly well. The SPRE experiment in 1992 was by most accounts a dismal failure. State agencies, even though they asked for the chance, were just not up to the challenge. The federal government is not equipped to address adequately the quality problem, with the exception of discontinuing federal aid for high default institutions. The seemingly ineffective operations of two of the three entities places the burden of quality assurance on the accrediting agencies.

Maintaining a vocational training program for those youth who are not prepared or choose not to participate in a traditional college experience is imperative. Vocational training, as stated earlier, has a place in today's society. The question is, "How is vocational training preserved and quality assured?" We believe that the issue is where training is provided, not if training is provided. Public community colleges and technical colleges provide high quality vocational training and are accredited by their state and regional accrediting agency. Proper supervision of students, faculty, finances, and quality is important for solving the vocational, technical training question. We suggest that all federally-supported vocational training should only be provided by public two-year community colleges and vocational/technical colleges that have appropriate state and regional accreditation.

Who's on first? Institutions generally use a combination of federal grants, loans, and work-study, as well as institutional aid to build a total assistance package for their students. The combination of merit- and need-based aid complicates the aid picture so that every combination cannot be examined at this time. However, federal funds, usually Pell grants, are considered the backbone of any financial aid package. When the Georgia HOPE program was originally implemented in 1992, a basic requirement was that students had to apply for a Pell grant before they could receive a HOPE scholarship. The state funds budgeted for

the first year of implementation of the HOPE program were significantly underspent due to the increase in Pell grants. Other state sponsored scholarship and aid programs have similar requirements, and most subtract the Pell grant from the total need before state or institutional funds are applied.

We suggest that the order of applying funds to meet demonstrated financial need be changed so that Pell grants and federal loans are secondary to state and institutional funds. This would have an effect of reducing the dependency, and therefore the cost of the federal programs, and eliminate encouraging increases in tuition to capture the maximum available federal financial aid.

Educational HMO. McPherson, Schapiro, and Winston (1993) claim that higher education and medical care are the two commodities in American society where the quality of service is severed from the ability to pay. Rawls (1971) referred to these two commodities as "basic goods" that are needed in a post-modern society to pursue a reasonable plan of life. The analysis should be taken to the next step: How have we addressed the health care problems, and can those initiatives be transferred to higher education financing issues?

The health care industry, like higher education, was faced with rapidly increasing costs when it tried to satisfy the twin objectives of access and choice. During the decade of the 1970s and 1980s, the cost of health care, and ultimately health insurance programs, were facing annual double digit price increases. Employers, both public and private, were eliminating health insurance plans because of the ever escalating costs. Today, in the late 1990s, health insurance plans are healthy, and employers and employees are finding their cost of health insurance plans well within reason. What happened?

The major change in the health care industry was the elimination of absolute choice in the selection of doctors, hospitals, and treatment plans, and broad use of contractual discounts. At our university, a number of health insurance plans are offered: an indemnity plan, a point of service plan, and an HMO-type plan. Each plan has successively tighter restrictions on choice of doctor and hospital, but similar access provisions. In other words, an employee can go to any doctor they choose any time under the indemnity plan, but they can only go to one of 50 doctors any time under the HMO-type plan. The total cost for care under the indemnity plan is approximately $600 dollars per person per month and approximately $250 per person per month under the HMO-type plan. The 50

doctors in our HMO-type plan, and their corresponding hospitals, are contractually obligated, at a significantly reduced fee, to treat the individuals in the university's plan.

The analogy to higher education is obvious. The expanded choice offered through the changes to HEA beginning in 1978 has increased the costs of the program to the federal government and society. Furthermore, the original purpose of HEA, which was to provide access to all students, regardless of their socioeconomic status, has been obscured through these actions. By attempting to serve two goals, access and choice, low-income students cannot afford even a moderately priced public institution without borrowing, and middle-income students cannot attend a private institution without excessive borrowing.

Applying the health care solution of limiting choice and not access, an "Educational HMO," could be developed in two steps. The first would be for the Department of Education, or the current Congressional Commission on the Cost of Higher Education, to develop a schedule of costs for different types of postsecondary institutions. There would be a reasonable cost for public four-year and two-year institutions, and a reimbursement rate established for private institutions. As stated earlier, vocational education should fall under the purview of public higher education; however, if it does not, separate reasonable costs need to be developed for specific types of vocational training. Different rates would be established for diesel mechanics and cosmetology or barber school, etc. Gladieux, Hauptman, and Knapp (1994) outlined a similar plan, and suggested "... that such reasonable cost standards would be similar to the cost containment provisions in Medicare and Medicaid" (p. 144).

Secondly, Pell grants would be limited to a percentage, debatably 75 to 80 percent, of the four-year public college standard cost. Subsidized loans would be offered up to the standard cost at all types of institutions, based on demonstrated need. Arguably, the devil is in the details of such plans, but this two-step program would establish a strong basic philosophy upon which to develop a full "Educational HMO."

Epilogue

What we have suggested here is not meant to be an all-encompassing reform plan to solve all federal financial aid problems. We have suggested a number of reforms that will help the students, and a number that could help the entire

program. The suggestions are not interrelated and can be implemented singularly or collectively without jeopardizing effectiveness. What we do know, after talking to a large number of students, is that they are angry, bitter, and upset. We expect that they will continue to sing the blues in many venues, including voting booths and state legislatures.

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Endnotes

1. The research reported in this paper was sponsored by grants from the National Association of Student Financial Aid Administrators and ARAMARK. We are indebted to Jim Cook, Susan DeAngelis, and Shannon Fleming, who helped us with our interviews.

2. See Somers et al., 1997; Somers & Bateman, 1997.

3. See Somers & Hollis, 1996 for a discussion of student loan discharge in bankruptcy.

Synopsis of Roundtable Discussion

The following represents a synopsis of the major issues and themes that emerged from the roundtable discussion concluding the symposium. Moderated by Tim Christensen of the National Association of Student Financial Aid Administrators (NASFAA), the discussion featured the authors who had presented their research throughout the day, as well as two discussants—Jerry Davis from the Sallie Mae Education Institute and Jamie Merisotis from The Institute for Higher Education Policy. The roundtable provided an opportunity for the presenters to address the issues raised in their own and others' presentations, with the goal of identifying possible public policy strategies to address the concerns of both the research community and the higher education community as a whole.

The synopsis is broken down into discussions of questions posed by either the moderator, members of the panel, or the audience. The discussion as summarized here does not necessarily represent the consensus opinion of the participants, but rather the themes that were most prominent.

Introduction

Is student loan debt a problem? The goal of the roundtable discussion was to synthesize what had been learned and what future courses of action this new knowledge may suggest. Many of the panelists agreed that debt is a growing,

but not yet insurmountable, problem. As one panelist said, it is clear the sky is not falling, but it appears a lot closer than it did a few years ago. This point needs to be emphasized, both for public policy development and at the institutional level. The landscape has changed as a result of the 1992 reauthorization of the Higher Education Act, affecting the borrowing patterns of several groups in particular: graduate and professional students, bachelor's degree recipients, middle-income dependent students, and low-income independent students. These groups cut across income, dependency status, and degree level. Student loan debt may not be a problem for as large a group as many perceive, but it is a problem for some, especially the new cohort of borrowers.

The panel concluded that student loan debt is not a universal problem, and probably won't endanger access to postsecondary education. In fact, access is currently better than it has ever been. However, there are specific groups for which education does not always pay off and loan debt can be a substantial burden. These include students who don't benefit from their education, who drop out, or who default on their loans. The cost of not borrowing to go to school also needs to be examined.

That more than just a few students have serious problems with loan debt does not justify high-cost, wholesale legislative and programmatic changes that could have unintended negative consequences. There is always risk involved with any front-end investment in an uncertain commodity. In other businesses, however, borrowers are screened for risk, whereas students' lack of credit history is one of the main reasons why government guaranteed loans were created. This is a choice society has made. The research findings suggest that only 30 percent of borrowers have debt to income ratios above 10 percent. But this one-third of students who borrow is a significant number that should not be easily dismissed. These borrowers should be tracked carefully, and perhaps more directed policy changes could be considered to address their needs.

Loan limits

The discussion of student borrowing gave rise to the issue of loan limits, with participants offering a range of opinions and options on the subject. A targeted approach towards raising the limits for some students might be useful. While many students are not borrowing near the current limits, for certain groups it

may make sense to raise the limits—for example, borrowers at high-cost institutions with low default rates. However, raising the limits for all students would not be a good idea, especially for at-risk, first-year students.

The issue of increasing loan limits will certainly be raised by Congress, probably in relationship to rising tuition and costs. Changes in loan volume and college costs do not appear to have any direct relationship. However, the panelists agreed that continuing to focus the argument on this point detracts from the fact that the number of people borrowing is growing rapidly.

A political dynamic exists in the reauthorization discussions: it begins with concern over increasing costs, leading to some speculation in the higher education community that loan limits should be raised. Although there may not necessarily be any consensus in the community to raise the limits, the issue ends up being placed on the table. Later on in the political process, as other ideas fade from the policy discussions, policymakers often end up raising loan limits because they want to do *something* for students. After the reauthorization is completed and the changes in loan limits are implemented, many are soon lamenting the fact that borrowing levels have risen. This pattern has been repeated in several of the reauthorizations.

Intergenerational transfer

The increased availability and use of student loans play a role in the intergenerational transfer of the cost of college. Instead of borrowing against their home equity or taking out other loans to pay for their children's education, parents may be replacing their direct contributions with student loans accepted by their children. Currently only a very limited amount of home equity loans appear to be used to pay for higher education. However, both student and parent loans are fungible—parents pass the payment onto the children or repay the student's loan. People are savvy in playing the loan rules. For example, students may get government loans because of better interest rates, but then the parents actually will pay off the loans with their own conditions attached for repayment.

However, there are safeguards within the system. The PLUS loan program, for example, requires that parents immediately begin repayment of the loans. With the delay of repayment and the accrual of interest, students may have more potential for default. It appears that a shift from parent to child may

have occurred because the child is perceived to have "unlimited" lines of credit, especially with the advent of the unsubsidized program. Are parents shifting loans to children so that they can borrow for something else? We don't have the complete picture, particularly regarding the differences between low- and middle-income families. The panelists concluded that it is very complicated to measure exactly how much parents are borrowing to pay for their children's postsecondary education.

Credit card financing

Another practice that is difficult to measure is the growing use of credit cards to pay for college, particularly given the growth of consumer debt overall. Colleges now accept tuition payments via credit cards, but the extra convenience may be outweighed by the significantly higher finance charges. Students who pay for tuition via credit card but do not pay off the balance the following month are effectively taking out an 18 or 20 percent loan. Measuring the use of credit cards involves more than how much they are being used. We must also examine the differences in use based on dependency status and degree level of students, and among different types of expenditures. It may be a problem of student expectations—students may be using credit cards not necessarily for college expenses, but to maintain a certain lifestyle. Nevertheless, there is some institutional responsibility for encouraging the sensible use of credit cards.

Loan repayment as employee benefit

Policymakers have discussed including student loan repayment in an employee's "cafeteria" benefits plan to pay off student loans. The idea would most likely require a tax deduction for corporations as an incentive to offer the benefits. In practice, it would probably be a replacement benefit: employees could choose student loan repayments or dependent health care, for example. This idea may be hard to sell to corporations because younger employees tend to leave companies after only a year or so. However, some companies may want to use the benefit selectively to keep people in the organization. While there has been some interest in pursuing legislation, currently little activity exists.

High-risk students and defaults

Several groups of borrowers are at risk of defaulting on their student loans. Minorities and single mothers often have higher drop-out rates because they more frequently attend on a part-time basis and lack preparation to do college-level work. If they have not received an education that increases their skills or earnings, it will be difficult to find a job. Therefore, their debt burdens will be especially high.

The new welfare laws have limited welfare recipients' participation in postsecondary education. One solution to the problem could be to alter the legislation so that work-study counts toward the welfare program's work requirements. Another possibility is to allow institutions to set lower loan limits for (high-risk) welfare students, especially at community colleges. Yet there are several legal questions involved in essentially denying students access to programs in which they are eligible to participate. This kind of authority could clearly have unintended negative consequences on access to postsecondary education.

Despite strong arguments for lower loan limits for high-risk students and first-year students, lenders currently cannot deny loans based on indeterminate risk factors. Therefore, a strong alternative is to provide all new borrowers with good information on loans, so that they can be certain that borrowing is an appropriate option for them.

Some panelists saw high default rates as a sign of public policy success—low default rates may mean that the right people aren't gaining access to education and are therefore not getting off welfare or improving their economic standing, which is ultimately more costly to society. In general, defaults are not a good indicator of the quality of education offered at a particular institution. High-risk students should not be punished forever for defaulting on student loans, especially if society is not willing to replace loans with grants, which would be more appropriate for such students. In effect, bad public policy sets low-income people up for default, especially at proprietary schools where job prospects are generally low-paying. In some cases, efforts to improve default rates have driven educational opportunity out of poor communities, as schools try to attract fewer high-risk students.

It is also important for prospective students to understand the potential outcomes of their education—for example, what kinds of jobs they can reasonably expect to achieve. A definite need for vocational training exists, but the issue of unlimited choice without adequate information needs to be addressed.

Accountability, costs, and prices

The growing cost of a college education is very much in the forefront of the minds of families and policymakers. Increased media attention in the past few years has raised the visibility of the issue, generating such responses as the National Commission on the Cost of Higher Education and statewide taskforces. While there are many valid reasons for increasing costs, colleges still need to be held more accountable to students and families. To some extent, rising prices are a reflection of the market—high demand still exists at the most expensive schools. If demand dries up, prices should stop rising. If we assume that the availability of federal student aid does not affect colleges prices, then a public policy solution—including a federal cost control mechanism—is not appropriate.

Higher education is different from other industries. The sticker price is lower than the real cost, sometimes by twice as much, given the tuition discounting and institutional aid that colleges and universities offer. Tuitions could be lowered by eliminating institutional aid to students, but the issue is more complex. In general, the price colleges charge is not within the federal government's purview, particularly given the amount of aid many colleges provide on their own. If they so desired, colleges could fill their classrooms with full-paying students from middle- and upper-income families, but this wouldn't be good for America, and it would not address the diversity that institutions seek.

Information and communication

There is a high level of misinformation and lack of information regarding college costs and prices, especially for lower-income groups. Many low-income individuals rule out college as an option because they believe prices are too high and financial aid is not available. The higher education community needs to do a better job of conveying accurate information. The Department of Education is important as an information disseminator, but states and institutions

also have essential roles. Unfortunately, we still cannot tell parents how much they will have to pay at an early point in the process—they must go through the process of applying first, and this often acts as a disincentive. In the end, we must solve the problems of misinformation and lack of information by finding ways to communicate straightforward, simple facts to all groups in society.

Student Loan Debt: Problems and Prospects

A NATIONAL SYMPOSIUM SPONSORED BY
The Institute for Higher Education Policy
Sallie Mae Education Institute
The Education Resources Institute (TERI)

December 10, 1997 • Hyatt Regency Capitol Hill • Washington, DC

8:30 - 9:00	Registration
9:00 - 9:15	Welcome and Introduction Ted Freeman, The Education Resources Institute (TERI)
9:15 - 10:15	Current Borrowing Patterns and Debt Levels Jacqueline King, American Council on Education Patricia Scherschel, USA Group, Inc. Jerry Davis, Sallie Mae Education Institute, Moderator
10:15 - 10:30	Break
10:30 - 11:15	Early Labor Force Experiences and Debt Burden Susan Choy, MPR Associates, Inc. Colleen O'Brien, The Institute for Higher Education Policy, Moderator
11:15 - 12:15	Borrower Attitudes and Experiences Sandra Baum, Skidmore College Diane Saunders, Nellie Mae John Reeves, Sallie Mae Education Institute, Moderator
12:15 - 1:15	Lunch

1:15 - 2:00	Debt Patterns by Degree Level and Program of Study Patricia Somers, University of Arkansas at Little Rock James Cofer, University of Arkansas System Jamie Merisotis, The Institute for Higher Education Policy, Moderator
2:00 - 3:30	Roundtable Discussion: *Is Student Loan Debt a Problem? For Whom? What Public Policy Options Should Be Considered to Address Student Debt?* Sandra Baum, Skidmore College Susan Choy, MPR Associates, Inc. James Cofer, University of Arkansas System Jerry Davis, Sallie Mae Education Institute Jacqueline King, American Council on Education Jamie Merisotis, The Institute for Higher Education Policy Diane Saunders, Nellie Mae Patricia Scherschel, USA Group, Inc. Patricia Somers, University of Arkansas at Little Rock Timothy Christensen, NASFAA, Moderator
3:30	Adjourn

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